SIYAPATHA FINANCE PLC

FINANCIAL STATEMENTS

31 DECEMBER 2018

Building a better working world

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INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF SIYAPATHA FINANCE PLC

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Siyapatha Finance PLC ("the Company"), which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements gives a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

(Contd...2/-)

Key audit matter	How our audit addressed the key audit matter
Impairment Allowance for Lease receivables, Factoring receivables and Loan receivables including Company's transition to SLFRS 9: Our audit considered impairment for Lease receivables, Factoring receivables and Loan receivables as a key audit matter. The materiality of the reported amounts for Lease receivables, Factoring receivables and Loan receivables (and impairment thereof), the subjectivity associated with management's impairment estimation, complex manual calculations of impairment and transition to Sri Lanka Financial Reporting Standard 9: Financial Instruments (SLFRS 9) underpinned our basis for considering it as a Key Audit Matter. As at 31 December 2018 the total of the Lease receivables, Factoring receivables and Loan receivables amounted to LKR 29,416 Million (Note 24, 21 and 23), net of total allowance for impairment of LKR 1.476.3 Million (Note 24, 21 and 23). These collectively contributed 81% to the total assets. The impact on transition to SLFRS 9 on the Company's Financial Statements has been quantified and presented in the Note 6 to the Financial Statements. Significant estimates and assumptions used by the management in such calculations, their sensitivities and basis for allowance for impairment are disclosed in Note 4.1.9, 24, 21, 23, and 42.4.	To assess the reasonableness of the allowance for impairment, we carried out audit procedures (among others) to obtain sufficient and appropriate audit evidences, that included the following: • We evaluated the design, implementation and operating effectiveness of key internal controls over estimation of impairment for Lease receivables, Factoring receivables and Loan receivables, which included assessing the level of oversight, review and approval of impairment policies by the Board Audit Committee and management. • We test-checked the underlying calculations and data used in such calculations. • In addition to the above, following focused procedures were performed: For those individually assessed for impairment: – we assessed the main criteria used by the management for determining whether an impairment event had occurred. – where impairment indicators existed, we assessed the reasonableness of management's estimated future recoveries including the expected future cash flows, discount rates and the valuation of collateral held. We also compared the actual recoveries against previously estimated amounts of future recoveries. For those collectively assessed for impairment: – we tested the completeness of the underlying information used in the impairment calculations by agreeing details to the source documents and information in IT systems. – we also considered reasonableness of macro-economic and other factors used by management in their judgmental overlays, by comparing them with relevant publicly available data and information sources. • We assessed the adequacy of the related financial statement disclosures as set out in Note 4.1.9, 24, 21, 23, and 42.4. • We also assessed the adequacy of the Company's disclosure on the impact of the initial adoption of SLFRS 9 as set out in note 6. This included testing of the quantitative impact of the transition.

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Key audit matter	How our audit addressed the key audit matter
Company's controls over financial reporting process, related IT systems and implementation of a new IT system Company uses multiple and complex IT systems in its operations. As a result, preparation of financial statements inclusive of key disclosures are heavily dependent on various information system outputs. In order to rely on the output of such system for the purpose of the audit, ensuring the appropriate design and operating effectiveness of financial reporting related IT controls is critical. During the year, the Company implemented a new IT system for Loan Receivables and Fixed Deposits. The change of IT system involved the migration of operational and financial data from the previous systems to the new system. As such, ensuring the integrity of financial data being migrated was critical for accurate financial reporting. The preparation and presentation of financial statements and disclosures based on manual or IT dependent controls over the said process was considered by us as an area of significant attention together with the accuracy of data migrated to the new IT system. In addition, as our approach was based on a high degree of reliance on financial reporting related IT controls, a significant proportion of our audit involved procedures in this area, and accordingly we considered this as a key audit matter.	Our audit procedures included the following, amongst others • We involved our internal specialised resources to understand and evaluate design effectiveness of selected automated, IT dependent and manual controls as implemented by management over the process of generating financial statements and significant disclosures. • We carried out test-checking of: the reports used for the generation of financial statement disclosures for accuracy and completeness; source data with those of the related systems; and calculations and categorisations performed by management. • Where we considered necessary, we performed additional substantive audit procedures on system output to general ledger reconciliations that supports significant financial statements disclosures. • In respect of the new IT system, we considered the Company's processes and project governance over the implementation as carried out by a third party. We also involved our internal specialised resources to test-check the data migration process. • We also performed other procedures which included understanding and evaluation of specific procedures carried out by personnel involved in the information security function that supported management's assertion of integrity of systems.

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Other information included in the 2018 Annual Report

Other information consists of the information included in the Company's 2018 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Company's 2018 annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 2199.

Ernst & Young

26 February 2019
Colombo

INCOME STATEMENT

Year ended 31 December 2018

	Note	2018 Rs.'000	2017 Rs.'000
Interest income		6,395,898	4,599,470
Less: Interest expenses		(3,680,060)	(2,764,290)
Net interest income	7	2,715,838	1,835,180
Fee and commission income		278,637	243,899
Less: Fee and commission expenses		(21)	(680)
Net fee and commission income	8	278,616	243,219
Other operating income	9	288,844	222,685
Total operating income		3,283,298	2,301,084
Less:Credit loss expense on financial assets and other losses	10	(829,751)	(236,744)
Net operating income		2,453,547	2,064,340
Less: Operating expenses			
Personnel expenses	11	(733,266)	(611,373)
Other operating expenses	12	(595,233)	(436,917)
Operating profit before taxes on financial services		1,125,048	1,016,050
Less: Taxes on financial services	13	(291,259)	(230,810)
Profit before income tax		833,789	785,240
Less: Income tax expense	14	(317,268)	(286,378)
Profit for the year		516,521	498,862
Basic/Diluted earnings per share (Rs.)	15	8.52	8.70
Dividend per share (Rs.)	16	1.25	1.21

The Accounting policies and Notes to the Financial Statements from pages 11 to 76 form an integral part of these Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	Note	2018 Rs.'000	2017 Rs.'000
Profit for the year		516,521	498,862
Other comprehensive income/ (expenses)			
Other comprehensive income that will not to be reclassified to profit or loss:			
Actuarial gain/(loss) on defined benefit plan	36.3	2,295	(1,683)
Deferred tax effect on actuarial gain/(loss)	35	(643)	471
		1,652	(1,212)
Surplus from revaluation of property,plant & equipment		70,750	78,921
Deferred tax effect on revaluation surplus		(19,810)	(22,098)
	39	50,940	56,823
Other comprehensive income for the year,net of tax		52,592	55,611
Total comprehensive income for the year,net of tax		569,113	554,473
Attributable to :			
Equity holders of the parent company		569,113	554,473
		569,113	554,473

The Accounting policies and Notes to the Financial Statements from pages 11 to 76 form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 Rs. '000	2017 Rs. '000
Assets			
Cash and bank balances	18	191,556	297,858
Placements with banks	19	-	65,699
Securities purchased under repurchase agreements	20	1,768,461	1,200,981
Factoring receivables	21	1,332,310	1,899,702
Gold loan receivables	22	3,548,666	2,563,352
Loan receivables	23	2,481,575	2,724,776
Lease receivables	24	25,601,932	19,873,470
Hire purchase receivables	25	48,525	252,000
Other assets	26	489,556	464,986
Financial instruments- available for sale	27	-	56
Equity instruments at fair value through other comprehensive income	27	56	-
Financial investments held to maturity	28	-	4,303
Debt instruments at amortised cost	28	4,319	-
Property, plant & equipment	29	615,402	455,140
Intangible assets	30	83,972	8,257
Total Assets		36,166,330	29,810,580
Liabilities			
Bank overdraft		321,821	456,018
Due to other customers	31	9,672,008	9,333,622
Debt issued and other borrowed funds	32	21,391,367	16,310,778
Other payables	33	600,736	775,445
Current tax liabilities	34	149,015	91,800
Deferred tax liabilities	35	449,603	331,469
Retirement benefit obligations	36	40,789	33,163
Total Liabilities		32,625,339	27,332,295
Equity			
Stated capital	37	948,666	635,917
Share application money pending allotment	37.1	400,000	-
Statutory reserve fund	38	139,000	113,000
Revaluation reserve	39	107,763	56,823
Retained earnings	40	1,945,562	1,672,545
Total Equity		3,540,991	2,478,285
Total Liabilities and Equity		36,166,330	29,810,580
Net asset value per share (Rs.)		55.68	44.43
Commitments and contingencies	44	609,673	772,657

We certify that these Financial Statements are presented in compliance with the requirements of the Companies Act No.7 of 2007.

Managing Director

Head of Finance

The Board of Directors is responsible for these Financial Statements.Approved and signed for and on behalf of the Board by,

Chairman

Director

The Accounting policies and Notes to the Financial Statements from pages 11 to 76 form an integral part of these Financial Statements.

ERNST & YOUNG Chartered Accountants COLOMBO

26 February 2019
Colombo

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Note	Stated Capital	Share Application Money Pending Allotment	Statutory Reserve Fund	Revaluation Reserve	Retained Earnings	Total
		Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Balance as at 01 January 2017		576,975	-	86,422	-	1,266,963	1,930,360
Profit for the year		-	-	-	-	498,862	498,862
Other comprehensive income,net of tax		-	-	-	56,823	(1,212)	55,611
Transfer to Statutory Reserve Fund	38	-	-	26,578	-	(26,578)	-
Scrip Dividend paid		58,942	-	-	-	(65,491)	(6,549)
Balance as at 31 December 2017		635,917	-	113,000	56,823	1,672,544	2,478,284
Impact of adopting SLFRS 9 as at 1 January 2018		-	-	-	-	(149,435)	(149,435)
Restated balance under SLFRS 9 as at 1 January 2018		635,917	-	113,000	56,823	1,523,109	2,328,849
Profit for the year		-	-	-	-	516,521	516,521
Other comprehensive income,net of tax		-	-	-	50,940	1,652	52,592
Transfer to Statutory Reserve Fund	38	-	-	26,000	-	(26,000)	-
Scrip Dividend paid		62,749	-	-	-	(69,721)	(6,972)
Rights issue of shares		250,000	-	-	-	-	250,000
Share application money pending allotment	37.1	-	400,000	-	-	-	400,000
Balance as at 31 December 2018		948,666	400,000	139,000	107,763	1,945,561	3,540,990

The Accounting policies and Notes to the Financial Statements from pages 11 to 76 form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Note	2018 Rs. '000	2017 Rs. '000
Cash flows from operating activities			
Profit before taxation from operations		833,789	785,240
Interest expenses	7	3,680,060	2,764,290
Fee & commission expenses	8	21	680
Credit loss expense on financial assets	10	829,751	236,744
Provision for staff gratuity	36.2	11,921	9,175
Provision for depreciation	29	52,426	49,839
Amortisation of software	30	14,023	6,224
(Profit)/Loss on sale of motor vehicles		(765)	(1,723)
Write off of provisions		(175)	-
		4,587,262	3,065,229
Operating profit before working capital changes		5,421,051	3,850,469
(Increase)/Decrease in lease receivables		(6,071,416)	(6,143,152)
(Increase)/Decrease in hire purchase receivables		209,723	586,489
(Increase)/Decrease in factoring receivables		99,765	10,685
(Increase)/Decrease in gold loan receivables		(976,106)	(801,728)
(Increase)/Decrease in loan receivables		31,681	(2,014,570)
Increase/(Decrease) in due to other customers		291,101	5,751,243
(Increase)/Decrease in other assets		(55,049)	(179,752)
Increase/(Decrease) in other payables		(239,202)	122,516
		(6,709,503)	(2,668,269)
Cash generated from operating activities		(1,288,452)	1,182,200
Interest expense paid		(3,605,669)	(2,514,237)
Gratuity paid	36.1	(2,000)	(708)
Income tax paid	34	(39,761)	(58,749)
Dividend tax paid		(6,972)	(6,549)
Net cash outflow from operating activities		(4,942,854)	(1,398,043)
Cash flow from investing activities			
Net investments in government bonds & government securities		639,873	(1,192,896)
Purchase of property, plant and equipment and intangible assets		(231,693)	(74,444)
Proceeds from sale of property, plant and equipment		781	2,248
Net cash inflow/(outflow) from investing activities		408,961	(1,265,092)
Net cash outflow before financing activities		(4,533,893)	(2,663,135)
Cash flow from financing activities			
Proceeds from long term loans		8,350,000	5,075,000
Repayments of long long term loans		(5,821,539)	(3,757,504)
Proceeds from debentures		-	1,000,000
Proceeds from rights issue		250,000	-
Share application money pending allotment		400,000	-
Net proceeds from short term borrowings		2,525,000	(225,000)
Net cash inflow from financing activities		5,703,461	2,092,496
Net increase/(decrease) in cash and cash equivalents		1,169,568	(570,639)
Cash & cash equivalents as at the beginning of the year		(92,461)	478,178
Cash and cash equivalents as at end of the year		1,077,107	(92,461)
Analysis of the cash and cash equivalents at the end of the year			
Cash and bank balances (Note 18)		191,559	297,858
Placements with banks less than three months (Note 19)		-	65,699
Securities purchased under repurchase agreements less than three months		1,207,369	-
Bank overdraft		(321,821)	(456,018)
		1,077,107	(92,461)

The Accounting policies and Notes to the Financial Statements from pages 11 to 76 form an integral part of these Financial Statements.

1. CORPORATE INFORMATION

1.1 General

Siyapatha Finance PLC (“The Company”), formerly known as Siyapatha Finance Limited is a domiciled, public limited liability company incorporated in Sri Lanka on 03 March 2005 under the Companies Act No. 17 of 1982. The Company was re-registered with the Registrar General of Companies as per the requirements of the Companies Act No.7 of 2007. It is a Licensed Finance Company under the Finance Business Act No.42 of 2011 and amendments thereto. The registered office of the Company is located at No.110, Sir James Pieris Mawatha, Colombo 02. The principal place of business is located at. No.46/12, Nawam Mawatha, Colombo 02.

The debentures of the Company were initially listed on the Colombo Stock Exchange on 2 January 2015.

The staff strength of the Company as at 31 December 2018 was 597 (540 as at 31 December2017).

1.2 Principal Activities and Nature of Operations

The Company provides a comprehensive range of financial services encompassing accepting deposits, providing finance lease, hire purchase, vehicle loan facilities, mortgage loans, gold loan, debt factoring, revolving loans and business/personal loans.

1.3 Parent Enterprise and Ultimate Parent Enterprise

The Company’s parent undertaking /ultimate parent and the controlling party is Sampath Bank PLC, which is incorporated in Sri Lanka.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The Financial Statements of the Company, which comprise Statement of Financial Position, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes to the Financial Statements have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs & LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 7 of 2007.

2.2 Responsibility for Financial Statements

The Board of Directors is responsible for the preparation and presentation of these Financial Statements as per Sri Lanka Accounting Standards (SLFRS/ LKAS) and the provisions of the Companies Act No.7 of 2007.

2.3 Approval of Financial Statements by Directors

The Financial Statements of the Company as at and for the year ended 31 December 2018 were authorised for issue by the Board of Directors in accordance with the resolution of the Directors on 26 February 2019.

This is the first set of Annual Financial Statements in which SLFRS 9 – Financial Instruments and SLFRS15 - Revenue from Contracts with Customers have been applied. The changes to the significant accounting policies are described in Note 3 to the Financial Statements.

2.4 Basis of Measurement

The Financial Statements of the Company have been prepared on a historical cost basis, except for the following items in the Statement of Financial Position.

- Financial Assets at fair value through other comprehensive income (applicable from 1st January 2018) at fair value(Note 27)

- Available for Sale Financial Instruments (applicable before 1st January 2018) at fair value(Note 27)

- Freehold land, which is measured at cost at the time of acquisition subsequently, measured at revalued amounts, which are the fair values at the date of revaluation(Note 29)

- Liabilities for defined benefit obligations are recognized at the present value of the defined benefit obligation less the fair value of the plan assets (Note 36)

2.5 Functional and Presentation Currency

The Financial Statements of the Company are presented in Sri Lankan Rupees (Rs.), which is the currency of the primary economic environment in which Siyapatha Finance PLC operates. The Financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand unless indicated otherwise. There was no change in the Company’s presentation and functional currency during the year under review.

2.6 Presentation of Financial Statements

The assets and liabilities of the Company presented in the Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the Financial Statements. An analysis on recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in the Note 43.

2.7 Materiality and Aggregation

In compliance with Sri Lanka Accounting Standard -LKAS 01(Presentation of Financial Statements), each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions too are presented separately, unless they are immaterial.

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by an Accounting Standard.

2.8 Comparative Information

The comparative information is re-classified whenever necessary to conform to the current year's presentation the details of which are given in Note 46 to the Financial Statements.

The comparative information has not been restated due to adoption of SLFRS 9, as explained in Note 3.

2.9 Statement of Cash Flow

The cash flow statement has been prepared by using the indirect method in accordance with the Sri Lanka Accounting Standard - LKAS 7 (Statement of Cash Flows), whereby operating, investing and financial activities have been separately recognised. Cash and cash equivalents comprise of short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Cash and cash equivalents include cash in hand, balances with banks, placements with banks (less than 3 months), net of unfavourable bank balances and securities purchased under repurchase agreement (less than three months).

2.10 Events After the Reporting Date

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the Financial Statements are authorised for issue.

No circumstances have arisen since the reporting date, which would require adjustments to, or disclosure in the financial statements, other than those disclosed in Note 45 to the Financial Statements.

2.11 Significant Accounting Judgements, Estimates and Assumptions

The preparation of Financial Statements of the Company in conformity with Sri Lanka Accounting Standards requires the management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of income, expenses, assets and liabilities and the accompanying disclosures as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Company's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities with in next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond Company's control and are reflected in the assumptions if and when they occur.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The most significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have most significant effect on the amounts recognised in the Financial Statements of the Company are as follows.

2.11.1 Going Concern

The Company's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern and does not intend either to liquidate or to cease operations. Therefore, the Financial Statements continue to be prepared on the going concern basis.

2.11.2 Impairment losses on loans and receivables

The measurement of impairment losses under SLFRS 9 and LKAS 39 across all categories of financial assets requires judgement, inparticular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates driven by a number of factors, changes in which can result in different levels of allowances.

Applicable from 1 January 2018

The Company's expected credit loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their independencies. The elements of the ECL models that are considered accounting judgements and estimates include.

- The Company's internal credit grading system,which assigns PDs to the individual grades
- The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime expected credit loss (LTECL) basis and the qualitative assessment
- The segmentation of financial assets when their fair values when their ECL is assessed on a collective basis.
- Development of ECLs, models, including the various formulas and the choice of inputs
  Determination of associations between macroeconomic scenarios and, economic inputs,such as unemployment levels and collateral values,and the effect on probability of default (PDs), Exposure at default (EADs) and loss given default (LGDs).

- Selection of forward –looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Applicable before 1 January 2018

The Company reviews its individually significant loans and advances at each financial reporting date to assess whether an impairment loss should be recorded in the income statement. In particular, management's judgement was required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates were based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio (such also an type, asset type and past due status etc., and judgements on the effect of concentrations of risks and economic data including levels of unemployment, consumer prices indices, interest rates, exchange rates). Impairment of loans and receivables is discussed in detail under Note 21 to 25 to the Financial Statements.

It is the Company's policy to regularly review its models in the context of actual loss experience and adjust whenever necessary.

2.11.3 Fair Value of Financial Instruments

The determination of fair value of financial assets and financial liabilities recorded on the Statement of Financial Position for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The valuation of financial instrument is described in Note 41 to the Financial Statements. The Company measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements. The fair value hierarchy is also given in Note 41 to the Financial Statements.

2.11.4 Financial Assets and Financial Liabilities Classification

The Company's accounting policies provide scope for assets and liabilities to be classified, at inception in to different accounting categories. The classification of financial instrument is given in Note 17 "Analysis of Financial Instruments by Measurement Basis".

2.11.5 Taxation

The Company is subject to income tax and judgement is required to determine the total provision for current, deferred and other taxes due to the uncertainties that exist with respect to the interpretation of the applicable tax laws, at the time of preparation of these Financial Statements.

The Company has adopted the requirements of the New Inland Revenue Act 24 of 2017 which was effective from 1 April 2018 and deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies.

2.11.6 Defined Benefit Plans

The cost of Defined Benefit Pension Plan is determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of Sri Lanka Government bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables**.** Future salary increases are based on expected future inflation rates and expected future salary increase rate for the Company. The sensitivity of assumptions used in actuarial valuations are set out in Note 36.4 to the Financial Statements.

2.11.7 Fair value of Property, plant & Equipment

The free hold land of the Company is reflected at fair value at the date of revaluation less any accumulated impairment losses. The Company engages independent valuation specialists to determine fair value of free hold land in terms of Sri Lanka Accounting Standard –SLFRS 13, (Fair Value Measurement).The details of freehold land including methods of valuation are given in Note 29 to the Financial Statements.

2.11.8 Useful Life-time of the Property, Plant, Equipment and Intangible Assets

The Company reviews the residual values, useful lives and methods of depreciation and amortization of property, plant, equipment and intangible assets at each reporting date. The judgement of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

2.11.9 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognized in the Statement of Financial Position but are disclosed unless they are remote. Details of commitments and contingencies are given in Note 44 to the Financial Statements.

3. CHANGES IN ACCOUNTING POLICIES

The Company has adopted SLFRS 9 –Financial Instruments, SLFRS 7 (Revised) **-** Financial Instruments Disclosures, SLFRS 15-Revenue from Contracts with Customers, effective for annual periods beginning on or after 01 January 2018, for the first time. The Company has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

SLFRS 9 -Financial Instruments

The Company has initially adopted SLFRS 9 with the date of transition as 1st January 2018. The Company has not early adopted this standard in previous periods. The adoption of SLFRS 9 has resulted in changes in accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. SLFRS 9 significantly amends the other standards dealing with financial instruments such as SLFRS 7 ‘Financial Instruments: Disclosure’.

As permitted by the transitional provisions of SLFRS 9, the Company elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities, at the date of transition were recognized in the retained earnings as at 1 January 2018. Accordingly, the information presented for year 2017 does not reflect the requirements of SLFRS 9 and therefore not comparable to the information presented for the year 2018 under SLFRS 9.

SLFRS 9 sets out the requirements for recognising and measuring financial assets and financial liabilities. This standard replaces LKAS 39 Financial Instruments: Recognition and Measurement. The requirements of SLFRS 9 represents a significant change from LKAS 39. This new standard brings fundamental changes to the accounting for financial assets and to certain aspects of accounting for financial liabilities.

Additionally, the Company has adopted consequential amendments to SLFRS 7 Financial Instruments: Disclosures that are applied to disclosures of 2018, but have not been applied to the comparative information.

The key changes to the Company's accounting policies resulting from its adoption of SLFRS 9 are summarised below. The full impact of adopting SLFRS 9 is set out in Note 6 to the Financial Statements.

Classification of Financial Assets & Financial Liabilities

SLFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and Fair value through Profit & Loss (FVTPL). SLFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

The LKAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income(FVOCI),with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets at FVPL

SLFRS 9 largely retains the existing requirements in LKAS 39 for classification of Financial Liabilities. However, although under LKAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under SLFRS 9 fair value changes are generally presented as follows.

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- The remaining amount of change in the fair value is presented in profit or loss.

The Company's classification of its financial assets and liabilities is explained in Note 17 to the Financial Statements. The quantitative impact of applying SLFRS 9 as at 1 January 2018 is disclosed in Note 6 to the Financial Statements.

Impairment of financial assets

The adoption of SLFRS 9 has fundamentally changed the Company's accounting for loan loss impairments by replacing LKAS 39's incurred loss approach with a forward looking expected credit loss (ECL) approach. The SLFRS 9 requires the Company to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI),the allowance is based on the change in the ECLs over the life of the asset.

Details of the Company's impairment method are disclosed in Note 4.1.9 to the Financial Statements. The quantitative impact of applying SLFRS 9 as at 1 January 2018 is disclosed in Note 6 to the Financial Statements.

To reflect the differences between SLFRS 9 and LKAS 39, Financial Instruments: Disclosures was updated and the Company has adopted it, together with SLFRS 7, for the year beginning 1 January 2018.Changes include transition disclosures as shown in Note 6, detailed information about the ECL calculations such as assumptions and inputs are set out in Note 4.1.9 to the Financial Statements.

SLFRS 15 –Revenue from Contracts with Customers

The Company has also adopted SLFRS 15 on 1st January 2018prospectively. The adoption of SLFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognized by the Company. Accordingly, the impact of comparative information is limited to new disclosure requirements.

Except for the changes mentioned above, the Company has consistently applied the accounting policies for all periods presented in these Financial Statements.

4. GENERAL ACCOUTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements except for the changes mentioned in Note 3 to the Financial Statements.

4.1 Financial Instruments-Initial Recognition, Classification and Subsequent Measurement

4.1.1 Date of Recognition

All financial assets and liabilities are initially recognised on the trade date.i.e.the date that the Company becomes a party to the contractual provisions of the instrument. This includes "regular way trades". Regular way trade means purchases or sales of financial assets with in the time frame generally established by regulation or convention in the market place.

4.1.2 Initial measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value ,except in the case of financial assets and financial liabilities recorded at fair value through profit or loss (FVPL),transaction costs are added to, or subtracted from, this amount. When the fair value of financial instruments at initial recognition differs from the transaction price, the Company accounts for "Day 1 profit or loss", as described below.

4.1.3 'Day 1' profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Company recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in the Income Statement over the tenor of the financial instrument using effective interest rate method. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the Income Statement when the inputs become observable, or when the instrument is derecognised.

4.1.4 Measurement categories of Financial Assets and Financial Liabilities

4.1.4 (a) Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at,

- Amortised cost,
- fair value through other comprehensive income (FVOCI) or
- Fair value through profit or loss.(FVPL)

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVTPL when they are held for trading and derivative instruments or the fair value designation is applied.

4.1.4 (a) (i).Financial Assets at Amortised cost :

The Company only measures loans, receivables, and other financial investments,at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Loans and Receivables consist of cash and bank balances, securities purchased under repurchase agreements, factoring receivables, lease receivables, hire purchase receivables, loan receivables, gold loan receivables and other assets.

The details of the above conditions are outlined below.

Business model assessment

The Company determines its business model at the level that best reflect how it manages groups of financial assets to achieve its business objective.

The Company’s business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity’s key management personnel
- The risks that affect the performance of the business model(and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example,whether the compensation is based on the fair values of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Company’s assessment

The business model assessment is based on reasonably expected scenarios without taking “worst case” or “stress case” scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company’s original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process, the Company assesses the contractual terms of financial to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms of that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

4.1.4 (a) (ii)Equity instruments at FVOCI

Upon initial recognition, the Company occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of definition of Equity under LKAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

Currently, the Company has recorded its non- quoted equity investments FVOCI at cost less ECL if any. The details of equity instruments at FVOCI are given in Note 27 to the Financial Statements.

4.1.4 (a) (iii)Debt issued and other borrowed funds

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

Currently, the Company has recorded Debt issued and other borrowed funds as Financial Liabilities at Amortised Cost in the form of term loans, short term loans, debentures, commercial papers and securitizations.

4.1.4 (b) Policy applicable before 1 January 2018

The Company classified its financial assets into one of the following categories, as per Sri Lanka Accounting Standard LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

a) Financial assets at Fair value through profit or loss (FVTPL);
b) Loans & Receivables (L&R)
c) Held to Maturity (HTM) Financial assets
d) Financial assets available for sale

The Company determines the classification of its financial assets at initial recognition. The classification depends on the purpose for which the investments were acquired or originated and based on the Company's ability to hold.

Subsequent measurement of financial assets depends on their classification.

a) Financial Assets at Fair Value through Profit or Loss (FVTPL)

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss.

The Company does not have financial assets under this category.

b) Financial Assets Available for Sale

Financial Assets available for sale include equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

The Company has not classified any loans or receivables as available for sale.

After initial measurement, available for sale financial investments are subsequently measured at fair value.

Unrealised gains or losses are recognised directly in equity (Other Comprehensive Income) in the 'Available for Sale Reserve'. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the Income Statement in 'Other Operating Income'. When the Company holds more than one investment in the same security, they are deemed to be disposed of on a first-in-first-out basis. Interest earned whilst holding available for sale financial investments is reported as interest income using the effective interest rate (EIR).

Dividends earned whilst holding available for sale financial investments are recognised in the income statement as 'Other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the Income Statement in 'impairment charges for loans and other losses' and removed from the Available for Sale Reserve.

Currently, the Company has recorded its non- quoted equity investments classified as available for sale financial instruments at cost less impairment if any. The details of available for sale financial assets are given in Note 27 to the Financial Statements.

c) Held to Maturity Financial Assets

Held to Maturity Financial assets are non- derivative financial assets with fixed or determinable payments and fixed maturities, which the company has the intention and ability to hold to maturity. This includes investment in government securities.

After the initial measurement, held to maturity financial instruments are subsequently measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest Income' in the Income Statement. The losses arising from impairment of such investments are recognised in the Income Statement in 'impairment charges for loans and other losses'.

If the Company were to sell or reclassify more than an insignificant amount of Held to Maturity investments before maturity (other than in certain specific circumstances) the entire category would be tainted and would be reclassified as available for sale. Furthermore, the Company would be prohibited from classifying any financial assets as held to maturity during the following two years. The details of HTM financial investments are given in Note 28to Financial Statements.

d) Loans and Receivables

Loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Company intends to sell immediately in the near term and those that, upon initial recognition, designates as fair value through profit or loss
- Those that the Company, upon initial recognition, designates as available for sale
- Those for which the Company may not recover substantially all of its initial investments, other than because of credit deterioration

After initial measurement, 'Loans and Receivables' are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking in to account any discount or premium on acquisition, fees, and costs that are an integral part of the EIR. The amortisation is included in 'Interest Income' in the Income Statement. The losses arising from impairment are recognised in impairment charges for loans and receivables' in the Income Statement.

Loans and Receivables consist of cash and bank balances, securities purchased under repurchase agreements, factoring receivables, lease receivables, hire purchase receivables, loan receivables, gold loan receivables and other assets.

Cash and Bank balances

Cash and bank balances comprise cash in hand, balances with banks, loans at call and at short notice that are subject to an insignificant risk of changes in their fair value and are used by the Company in the management of its short-term commitments. Details of cash and bank balances are given in Note 18 to Financial Statements.

4.1.5 Classification and Subsequent Measurement of Financial Liabilities

Financial liabilities, other than loan commitments and financial guarantees, are classified as,

(i) Financial liabilities at Fair Value through Profit or Loss (FVTPL)
  a) Financial liabilities held for trading
  b) Financial liabilities designated at fair value through profit or loss
(ii) Financial liabilities at amortised cost,when they are held for trading and derivative instruments or the fair value designation is applied.

The subsequent measurement of financial liabilities depends on their classification.

i. Financial Liabilities at Fair Value Through Profit or Loss (FVTPL)

Financial Liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Subsequent to initial recognition, financial liabilities at FVTPL are fair value, and changes therein recognized in Income Statement.

ii. Financial Liabilities at Amortised Cost

Financial Instruments issued by the Company that are not designated at fair value through profit or loss, are classified as financial liabilities at amortised cost under 'bank overdraft', 'due to other customers', 'debt issued and other borrowed funds' and 'other payables' as appropriate, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial assets for a fixed number of own equity shares at amortised cost using EIR method.

After initial recognition, such financial liabilities are substantially measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are integral part of the EIR. The EIR amortisation is included in 'interest expenses' in the Income Statement. Gains and losses are recognized in the Income Statement when the liabilities are derecognised as well as through the EIR amortisation process.

Currently, the Company has recorded Debt issued and other borrowed funds as Financial Liabilities at Amortised Cost in the form of term loans, short term loans and debentures.

4.1.6 Reclassifications of Financial assets and Financial Liabilities

From 1 January 2018, the Company does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Company acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Company did not reclassify any of its financial assets or liabilities in 2017.

4.1.7 Derecognition of Financial Assets and Financial Liabilities

4.1.7 (a)Derecognition of Financial Assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Company also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Company has transferred the financial asset, if and only if, either:

- The Company has transferred its contractual rights to receive cash flows from the financial asset

  Or

- It retains the rights to cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.

Pass-through arrangements are transactions whereby the Company retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'),but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Company has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates.
- The Company cannot sell or pledge the original asset other than as security to the eventual recipients
- The Company has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Company is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Company has transferred substantially all the risks and rewards of the asset

  Or

- The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

The Company considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received(including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

When the Company has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Company's continuing involvement, in which case, the Company also recognises as associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Company could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Company would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

4.1.7 (b)Derecognition - Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

4.1.8. Determination of Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

-In the principal market for the asset or liability, or
-In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

-Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
-Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
-Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The disclosure of fair value of financial instruments is disclosed in Note 41 to the Financial Statements.

4.1.9 Impairment of Financial Assets

4.1.9 (i).Policy applicable from 1 January 2018

a. Overview of the expected credit loss (ECL) principles

The Company recognises expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under SLFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Company's policies for determining if there has been a significant increase in credit risk are set out in Note 42.4.1.(b).

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Company established a policy to perform as assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Company groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below.

Stage 1: When loans are first recognised, the Company recognises an allowance based on 12mECLs.Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3: Loans considered credit-impaired .The Company records an allowance for the LTECLs.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Company has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

b.The Calculation of Expected Credit Loss (ECL)

The Company calculates ECLs based on a four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR.A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows.

PD : The probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

EAD: The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date,including repayments of principal and interest,whether scheduled by contract or otherwise,expecteddraw downs on committed facilities,and accrued interest from missed payments.

LGD: The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The mechanism of the ECL method are summarised below.

Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that represent the ECLs that result from default events on a financial instrument that are possible with in the 12 months after the reporting date. The Company calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation of the original EIR.

Stage2: When a loanhas shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3: For loans considered credit-impaired, the Company recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

Loan Commitments: When estimating LTECLs for undrawn loan commitments, the Company estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability weighting of the four scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.

For factoring receivables and revolving loans that include both a loan and an undrawn commitment. ECLs are calculated and presented with the loan.

Financial Guarantee contracts:

The Company's liability under each guarantee is measured at the higher of the initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Company estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability – weighting of the four scenarios. The ECLs related to financial guarantee contracts are recognised within provisions.

c. Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the Statement of Financial Position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to Income Statement. The accumulated loss recognised in OCI is recycled to the profit or loss upon derecognition of the assets.

d. Debt factoring and revolving loans

The Company's product offering includes debt factoring and revolving loan facilities, in which the Company has the right to cancel and/or reduce the facilities within a short notice. The Company does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Company's expectations of the customer behaviour, its likelihood of default and the Company's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Company's expectations, the period over which the Company calculates ECLs for these products, is limited to 12 months.

The ongoing assessment of whether a significant increase in credit risk has occurred for debt factoring and revolving loan facilities is similar to other lending products.This is based on shifts in the customer's internal credit grade, but greater emphasis is also given to qualitative factors such as changes in utilization.

e.Forward looking information

In its ECL models, the Company relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth
- Unemployment rate
- Central Bank base rates
- Inflation

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the Financial Statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

4.1.9 (ii) Policy applicable before 1 January 2018

The Company assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets are deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a group of borrowers are experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganisation default or delinquency in interest or principal payments; and where observable data indicates that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

a. Financial Assets carried at Amortised Cost

(i).Individually assessed Loans and Receivables-Factoring and Loans

For financial assets carried at amortised cost (such as loans and advances to customers as well as held to maturity investments), the Company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

The criteria used to determine that there is such objective evidence includes:

– known cash flow difficulties experienced by the borrower;
– past due contractual payments of either principal or interest;
– breach of loan covenants or conditions;
– the probability that the borrower will enter bankruptcy or other financial realisation; and
– Significant downgrading in credit rating by an external credit rating agency

For those loans where objective evidence of impairment exists, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in Income Statement.

The impairment allowances on individually significant accounts are reviewed more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

(ii).Incurred but not yet identified impairment

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Company has incurred as a result of events occurring before the reporting date, which the Company is not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans within the group, those loans are removed from the group and assessed on an individual basis for impairment.

The collective impairment allowance is determined after taking into account:

– historical loss experience in portfolios of similar credit risk; and
– management's experienced judgment as to whether current economic and credit conditions are such that the actual level of inherent losses at the balance sheet date is likely to be greater or less than that suggested by historical experience.

(iii).Collectively assessed Loans and Receivables

Impairment is assessed on a collective basis in two circumstances:
– to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment; and
– for homogeneous groups of loans that are not considered individually significant.

(iv).Homogeneous groups of Loans and Advances

Statistical methods are used to determine impairment losses on a collective basis for homogeneous groups of loans. Losses in these groups of loans are recorded on an individual basis when individual loans are written off, at which point they are removed from the group.

- When the group of loan by nature short term, the company use net flow rate method

Under this methodology the movement in the outstanding balance of customers in to bad categories over the periods are used to estimate the amount of loans that will eventually be written off as a result of the events occurring before the balance sheet date which the Group is not able to identify on an individual loan basis, and that can be reliably estimated.

Under the methodology, loans are grouped into ranges according to the number of days in arrears and statistical analysis is used to estimate the likelihood that loans in each range will progress through the various stages of delinquency, and ultimately prove irrecoverable.

Current economic conditions and portfolio risk factors are also evaluated when calculating the appropriate level of allowance required covering inherent loss.

These additional macro and portfolio risk factors may include:
- recent loan portfolio growth and product mix,
- unemployment rates, Gross Domestic Production (GDP) growth, inflation
- exchange rates, interest rates
- changes in government laws and regulations

b. Available for Sale Financial Investments

For available for sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of equity investments classified as available for sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. The Company treats 'significant 'generally as 20% and 'prolonged' generally as greater than six months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised in other comprehensive income.

c.Held to Maturity Financial Assets

An impairment loss in respect of held to maturity financial assets measured at amortised cost is calculated as the difference between its carrying amount and the present value of future cash flows discounted at the asset's original EIR and is recognised in profit or loss. Interest on impaired asset continues to be recognised through the unwinding of discount. When a subsequent event caused the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

4.1.9 (iii) Reversals of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in the income statement.

4.1.9 (iv). Renegotiated Loans

The Company makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Company considers a loan renotiated when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Company would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Renegotiated loans may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of the terms. It is the Company's policy to monitor renegotiated loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 renegotiated asset until it collected or written off.

From 1January 2018,when the loan has been renegotiated or modified but not derecognised, the Company also reassesses whether there has been a significant increase in credit risk, as set out in Note 42.4.1. The Company also considers whether the assets should be classified as Stage 3.

If modifications are substantial, the loan is derecognised as explained in Note 4.1.9(iv).

4.1.9 (v).Write-off of Financial Assets at Amortised Cost

The Company's accounting policy under SLFRS 9 remains the same as it was under LKAS 39. Financial Assets (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, this is generally after receipt of any proceeds from the realisation of security.

4.1.9 (vi).Collateral Valuation

The Company seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, gold, securities, letter of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting arrangements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the guidelines issued by the Central Bank of Sri Lanka.

To the extent possible, the Company uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuers, Audited Financial Statements and other independent sources.

4.1.9(vii).Collateral repossessed

The Company's accounting policy under SLFRS 9 remains same as it was under LKAS 39.The Company's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations will be transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset.

4.1.9(viii).Offsetting Financial Assets and Liabilities

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the Statement of Financial Position.

Income and expenses are presented on a net basis only when permitted under LKAS/ SLFRS, or for gains and losses arising from a group of similar transactions such as in the group's trading activity.

4.2 Finance and Operating Lease

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

4.2.1 Finance Lease

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. When the Company is a lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included in 'Lease Receivable". The finance income receivable is recognised in 'Net interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

When the Company is a lessee under finance leases, the leased assets are capitalised and included in 'Property, plant and equipment' and the corresponding liability to the lessor is including 'Other liabilities'. A finance lease and its corresponding liability are recognised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. Finance charges payable are recognised in 'Net interest income' over the period of the lease based on the interest rate implicit in the lease so as to give a constant rate of interest on the remaining balance of the liability.

The details of Finance Lease Receivables are given in Note 24 to the Financial Statements.

4.2.2 Operating Lease

All other leases are classified as operating leases. When acting as lessor, the Company includes the assets subject to operating leases in 'Property, plant and equipment' and accounts for them accordingly. Impairment losses are recognised to the extent that residual values are not fully recoverable and the carrying value of the assets is thereby impaired. When the Company is the lessee, leased assets are not recognised on the Statement of Financial Position. Rentals payable and receivable under operating leases are accounted for on a straight-line basis over the periods of the leases and are included in 'other operating expenses' and 'other operating income', respectively.

4.3 Property, Plant & Equipment

4.3.1 Recognition

Property, plant and equipment are tangible items that are held for use in the production or supply of services, for rental to others or for administrative purposes and are expected to be used during more than one period. The Company applies the requirements of the Sri Lanka Accounting Standard - LKAS 16 (Property, Plant and Equipment) in accounting for these assets. Property, plant and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be reliably measured.

4.3.2 Measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to, replace part of an item of property, plant & equipment. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of computer equipment. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

4.3.3 Cost Model

The Company applies the cost model to property, plant &equipment except for freehold land and buildings and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

4.3.4 Revaluation Model

The Company applies the revaluation model to the entire class of freehold land. Such properties are carried at a revalued amount, being the fair value at the date of revaluation less any subsequent accumulated impairment losses. Freehold land of the Company are revalued every three years or more frequently if the fair values are substantially different from carrying amounts to ensure that the carrying amounts do not differ from the fair values at the reporting date. The Company has revalued its freehold land during the year 2018 and details of the revaluation are given in Note 29 to the Financial Statements.

On revaluation of an asset, any increase in the carrying amount is recognised in 'Other comprehensive income 'and accumulated in equity, under revaluation reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to the Income Statement. In these circumstances, the increase is recognised as income to the extent of the previous write down. Any decrease in the carrying amount is recognised as an expense in the Income Statement or debited to the other comprehensive income to the extent of any credit balance existing in the capital reserve in respect of that asset.

The decrease recognised in other comprehensive income reduces the amount accumulated in equity under revaluation reserves. Any balance remaining in the revaluation reserve in respect of an asset is transferred directly to retained earnings on retirement or disposal of the asset.

4.3.5 Subsequent Cost

The subsequent cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Company and its cost can be reliably measured. The costs of the day to day servicing of property, plant and equipment are charged to the Income Statement as incurred.

4.3.6 Repairs and Maintenance

Repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to the Company and the renovation replaces an identifiable part of the asset. Major renovations are depreciated during the remaining useful life of the related asset.

4.3.7 Capital Work -in -Progress

Capital work in progress is stated at cost. It would be transferred to the relevant asset when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Capital work in progress is stated at cost less any accumulated impairment losses.

4.3.8 Borrowing Costs

As per Sri Lanka Accounting Standard- LKAS 23 on 'Borrowing Costs', the company capitalizes the borrowing costs that are directly attributable to acquisition, construction or production of qualifying assets as part of the cost of the asset. A qualifying asset is an asset which takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are recognised in the profit or loss in the period in which they occur.

4.3.9 De-recognition

Property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the income statement in the year the asset is derecognised.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

4.3.10 Depreciation

Depreciation is recognized in income statement on a straight line basis over the estimated useful lives of each part of an item of property, plant &equipment since this method most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The rates of depreciations based on the estimated useful lives are as follows:

Category of Asset	**Period of Depreciation**	
	2018	**2017**
Office Equipment	15.00 % p.a.	15.00 % p.a.
Computer Equipment	16.67% p.a	16.67% p.a
Office furniture	15.00% p.a.	15.00% p.a.
Motor Vehicles (except Motor Bicycles)	12.50% p.a.	12.50% p.a.
Motor Bicycles	20.00% p.a.	20.00% p.a.
Fixtures	20.00% p.a.	20.00% p.a.

4.3.11 Change in Estimates

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

4.4 Intangible Assets

The Company's intangible assets include the value of computer software.

4.4.1 Basis of Recognition

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Company in accordance with the Sri Lanka Accounting Standard LKAS 38 on Intangible assets.

Intangible assets acquired are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses if any.

4.4.2 Subsequent Expenditure

Subsequent expenditure on Intangible Asset is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

4.4.3 Useful Economic life, Amortization and Impairment

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year–end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

4.4.4 Amortization

Amortisation is calculated using the straight–line method to write down the cost of intangible assets to their residual value over their estimated useful life as follows:

The Class of Intangible Assets	Useful Life	Amortisation Method
Computer software	4 Years	Straight line method

The unamortized balances of Intangible assets with finite lives are reviewed for impairment whenever there is an indication for impairment and recognised in profit or loss to the extent that they are no longer probable of being recovered from the expected future benefits.

4.4.5 Derecognition

Intangible assets are derecognised on disposal or when no future economic benefits are expected from their use. Any gain or loss arising on derecognition of the asset, Calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the profit or loss in the year the asset is derecognised.

4.5 Impairment of Non Financial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For assets an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset’s or CGU’s recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Income Statement.

4.6 Dividend Payable

Dividends on ordinary shares are recognised as a liability and deducted in equity when they are recommended and declared by the Board of Directors and approved by the shareholders.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date in accordance with the Sri Lanka Accounting Standard – LKAS 10 on ‘Events after the reporting period’.

4.7 Retirement Benefit Obligations

4.7.1 Defined Benefit Plan - Gratuity

All the employees of the company are eligible for gratuity under the Payment of Gratuity Act No. 12 of 1983, at the rate of one half of the Gross Salary applicable to the last month of the financial year in which the employment is terminated or resigned, for each year of completed service, for those who have served in excess of 5 years.

The Company measures the present value of the promised retirement benefits for gratuity which is a defined benefit plan with the advice of an independent professional actuary using projected unit credit actuarial cost method as required by Sri Lanka Accounting Standard – LKAS 19 on “Employee Benefits”.

The item is stated under other liabilities in the Statement of Financial Position.

Recognition of Actuarial Gains and Losses
The Company recognises the total actuarial gains and losses that arise in calculating the Company’s obligation in respect of the plan in Other Comprehensive Income during the period in which it occurs.

Interest Cost
Interest cost is the expected increase due to interest at the end of the year. (The benefits are one year closer to settlement).

Funding Arrangements
The Gratuity liability is not externally funded.

4.7.2 Defined Contribution Plans

The Company also contributes defined contribution plans. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Company by the employees and is recorded as an expense under 'Personnel expenses'. Unpaid contributions are recorded as a liability.

The Company contributes to the following Schemes:

Employees' Provident Fund

The Company and employees contribute 12% and 8% respectively of the employee's total earnings (as defined in the Employees' Provident Fund) to the Employees' Provident Fund.

Employees' Trust Fund

The Company contributes 3% of the employee's total earnings (as defined in the Employees' Trust Fund) to the Employees' Trust Fund.

4.8 Statutory Reserve Fund

The reserves recorded in the equity on the Company's Statement of Financial Position includes the 'Statutory reserve fund' which has been created in accordance with the Finance Companies (Capital Funds) Direction No.1 of 2003 issued by Central Bank of Sri Lanka. Accordingly, 5% of the net profit for the period is transferred to the Statutory reserve fund during the financial year.

4.9 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation in accordance with Sri Lanka Accounting Standard – LKAS 37 on 'provision, contingent liabilities and contingent assets'.

The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligations at that date.

The expense relating to any provision is presented in the income statement net of any reimbursement.

4.10 Recognition of Interest Income Interest Expense

4.10.1 Interest Income Interest Expense

Under both SLFRS 9 and LKAS 39, interest income and interest expense is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost. Interest income on interest bearing financial assets measured at FVOCI under SLFRS 9, similarly to interest bearing financial assets classified as available-for-sale or held to maturity under LKAS 39 is also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

The EIR (and therefore, the amortised cost of the asset/liability) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Company recognises interest income/expense using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset/liability are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the Statement of Financial Position with an increase or reduction in interest income/interest expense. The adjustment is subsequently amortised through Interest income/Interest expense in the income statement.

When a financial asset becomes credit-impaired (as set out in Note 42.4.1. (a)) and is, therefore, regarded as 'Stage 3', the Company calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Company reverts to calculating interest income on a gross basis.

Interest income on all trading assets and financial assets mandatorily required to be measured at FVPL is recognised using the contractual interest rate under net interest income.

4.10.2 Interest Income on Overdue Rentals

Interest from overdue rentals has been accounted for on cash received basis.

4.11 Fee and Commission Income and Expenses

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Company's financial statements may be partially in the scope of SLFRS 9 and partially in the scope of SLFRS 15. If this is the case, then the Company first applies SLFRS 9 to separate and measure the part of the contract that is in the scope of SLFRS 9 and then applies SLFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

The Company earns a fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided in to two categories.

a) Fee Income earned from services that are provided over a certain period of time
Fees earned for the provision of services over a period of time are accrued over that period.

b) Fee Income from providing transaction services
Fees arising from negotiating or participating in the negotiation of a transaction for a third party.

4.12 Other operating income

(a) Dividend Income

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividends are presented in net trading income, net income from other financial instruments at FVTPL or other revenue based on the underlying classification of the equity investment.

(b) Recovery of Bad Debts Written Off

Recovery of amounts written off as bad and doubtful debts is recognised when received.

(c) Other Income

Other income is recognised on an accrual basis.

4.13 Personnel Expenses

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay all employee benefits relating to employee services in the current and prior periods and the obligation can be estimated reliably.

4.14 Taxes

As per Sri Lanka Accounting Standard –LKAS 12(Income Taxes),tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxation. Income tax expense is recognised in the Income Statement, except to the extent it relates to items recognised directly in equity or other comprehensive income in which case it is recognised in equity or in other comprehensive income.

4.14.1 Current tax

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year, using the tax rates and tax laws enacted or substantially enacted on the reporting date and any adjustment to the tax payable in respect of prior years.

Accordingly, provision for taxation is based on the profit for the year 2018 adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 24 of 2017(Inland Revenue Act No.10 of 2006 and amendments thereto up to 31 March 2018) and the amendment thereto, at the rate specified in Note 14 to the Financial Statements.

4.14.2 Deferred tax

Deferred tax is recognisedusing the liability method in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised for all deductible temporary differences, carried forward unused tax credits and unused tax losses (if any), to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, carried forward unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each financial reporting date and reduced to the extent it is probable that sufficient taxable profit will be available to allow the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on the tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority, there is a legal right and intentions to settle on a net basis and it is allowed under the tax law of the relevant jurisdiction. Details of current tax liabilities and deferred tax liabilities / (assets) are given in Note 34 and Note 35 to the Financial Statements respectively.

4.14.3 Value Added Tax (VAT) on Financial Services

VAT on financial services is calculated in accordance with the Value Added Tax (VAT) Act No.14 of 2002 and subsequent amendments thereto. The base for the computation of value added tax on financial services is the accounting profit before VAT and income tax, adjusted for the economic depreciation and emoluments payable to employees including cash, non-cash benefits and provisions relating to terminal benefits.

4.14.4 Nation Building Tax (NBT) on Financial Services

NBT on financial services is calculated in accordance with Nation Building Tax (NBT) Act No 9 of 2009 and subsequent amendments thereto with effect from 01 January 2014. NBT on financial services is calculated as 2% of the value addition used for the purpose of VAT on financial services.

4.14.5 Debt Repayment Levy

As per the provisions of the Finance Act No.35 of 2018, Debt repayment levy has been imposed for a limited period from 01 October 2018 to 31 December 2021.

A levy of 7% is charged monthly on the value addition attributable to the supply of financial services as specified in section 36 of Finance Act No. 35 of 2018 along with section 25C of the Value Added Tax (VAT) Act No. 14 of 2002.

4.14.6 Withholding Tax (WHT) on Dividends

Withholding tax on dividends distributed by the Company that arise from the distribution of dividends of the company is recognised at the time of liability to pay the related dividend is recognized. At present, the rate of 14 % (Up to 31 March 2018-10%) is deducted at source.

4.14.7 Economic Service Charge (ESC)

As per the provisions of the Economic Service Charge (ESC) Act No. 13 of 2006, and subsequent amendments thereto, the ESC is payable at 0.5% on liable gross turnover of the Company and is deductible from the income tax payments. Unclaimed ESC, if any, can be carried forward and set-off against the income tax payable in the three subsequent years.

4.15 Regulatory provisions

4.15.1 Deposit Insurance and Liquidity Support Scheme

In terms of the Finance Companies Direction No.2 of 2010 “Insurance of Deposit Liabilities” issued on 27 September 2010 and subsequent amendments thereto, all Finance Companies are required to insure their deposit liabilities in the Deposit Insurance Scheme operated by the Monetary Board in terms of Sri Lanka Deposit Insurance Scheme Regulations No.1 of 2010 issued under Sections 32A to 32E of the Monetary Law Act with effect from 1 October 2010.The said Scheme was renamed as the “Sri Lanka Deposit Insurance and Liquidity Support Scheme” as per the Sri Lanka Deposit Insurance and Liquidity Support Scheme Regulation No. 1 of 2013.

The deposits to be insured shall include demand, time and savings deposit liabilities and exclude the following.

- Deposit liabilities to member institutions
- Deposit liabilities to the Government of Sri Lanka
- Deposit liabilities to shareholders, directors, key management personnel and other related parties as defined in Finance Companies Act(Corporate Governance) Direction No.3 of 2008 for Registered Finance Companies
- Deposit liabilities held as collateral against any accommodation granted
- Deposits falling within the meaning of abandoned property in terms of the Banking Act and dormant deposits in terms of the Finance Companies Act, funds of which have been transferred to the Central Bank of Sri Lanka in terms of the relevant Directions issued by the Monetary Board.

Registered Finance Companies are required to pay a premium of 0.15% on total amount of eligible deposits as at end of the month with in a period of 15 days from the end of the respective month.

4.15.2 Crop Insurance Levy (CIL)

In terms of the Finance Act No. 12 of 2013, all institutions under the purview of Banking Act No.30 of 1988, Finance Business Act No.42 of 2011 and Regulation of Insurance Industry Act No. 43 of 2000 are required to pay 1% of the profit after tax as Crop Insurance Levy to the National Insurance Trust Fund effective from 01 April 2013.

4.16 Earnings per Share (EPS)

Basic EPS is calculated by dividing the net profit or loss attributable to ordinary equity shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares if any.

4.17 Commitments and Contingencies

Contingent Liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefits is not probable or cannot be readily measured as defined in the Sri Lanka Accounting Standard – LKAS 37 on 'Provisions, Contingent liabilities and Contingent assets'.

Financial guarantees and undrawn loan commitments

The Company issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the Financial Statements (within Provisions) at fair value, being the premium received. Subsequent to initial recognition, the Company's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and - under LKAS 39 - the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or - under SLFRS 9 - an ECL provision.

The premium received is recognised in the income statement in Net fees and commission income on a straight line basis over the life of the guarantee.

Undrawn loan commitments are commitments under which, over the duration of the commitment, the Company is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under LKAS 39, a provision was made if they were an onerous contract but, from 1 January 2018, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments are disclosed in Note 44.

5. SRI LANKA ACCOUNTING STANDARDS NOT YET EFFECTIVE AS AT 31 DECEMBER 2018

The following Sri Lanka Accounting Standards have been issued by the Institute of Chartered Accountants of Sri Lanka which is not yet effective as at 31st December 2018. The Company intends to adopt these standards, if applicable, when they become effective.

A. SLFRS 16- LEASES

SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). SLFRS 16 will replace Sri Lanka Accounting Standard – LKAS 17 (Leases) and related interpretations.

The Company is required to adopt SLFRS 16 Leases from 1 January 2019. The Company has done a preliminary assessment of the impact that the initial application of SLFRS 16 will have on its financial statements. The actual impact of adopting the standard on 1 January 2019 may change because:

- the Company has not finalised the testing and assessment of controls over its new IT systems; and
- the new accounting policies are subject to change until the Company presents its first financial statements that include the date of initial application.

SLFRS 16 introduces a single, on-balance sheet lease accounting model for lessees eliminating the present classification of leases in LKAS 17 as either operating leases or finance leases. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

SLFRS 16 replaces existing leases guidance, including LKAS 17 Leases.

Leases in which the Company is a lessee
The Company has completed an initial assessment of the potential impact on its financial statements but has not yet completed its detailed assessment. The actual impact of applying SLFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, the development of the Company's lease portfolio, the Company's assessment of whether it will exercise any lease renewal options and the extent to which the Company chooses to use practical expedients and recognition exemptions.

The new standard requires a lessee to:
- Recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.
- Present depreciation of lease assets separately, from interest on lease liabilities in the income statement.

SLFRS – 16 substantially carries forward the lessor accounting requirement in LKAS – 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Company will recognise new assets and liabilities for its operating leases of branch and office premises. The nature of expenses related to these leases will now change because SLFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

As at 31 December 2018, the Company's future minimum lease payments under non-cancellable operating leases amounted to Rs.609.67 Mn on an undiscounted basis, which the Company estimates it will recognise as additional lease liabilities.

No significant impact is expected for the Company's finance leases.

Transition

The Company plans to apply SLFRS 16 initially on 1 January 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting SLFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Company plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply SLFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with LKAS 17. The impact on the implementation of the above Standard has not been quantified yet.

6. TRANSITION DISCLOSURES

The following set out the impact of adopting SLFRS 9 on the Statement of Financial Position,and retained earnings including the effect of replacing LKAS 39's incurred loss calculations with SLFRS 9's expected credit losses.

6.1 A reconciliation between the carrying amounts under LKAS 39 to the balances reported under SLFRS 9 as of 1st January 2018 is,as follows.

	Reference	LKAS 39 Measurement		Reclassification	Remeasurement		SLFRS 9	
		Category	Amount		ECL	Other	Amount	Category
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Cash and bank balances		L&R	297,858	-	(8)	-	297,850	Amortised cost
Placements with banks		L&R	65,699	-	(20)	-	65,679	Amortised cost
Securities purchased under repurchase agreements		L&R	1,200,981	-	-	-	1,200,981	Amortised cost
Factoring receivables		L&R	1,899,702	-	(172,672)	-	1,727,030	Amortised cost
Gold loan receivables		L&R	2,563,352	-	14,101	-	2,577,453	Amortised cost
Loan receivables		L&R	2,724,776	-	2,284	-	2,727,060	Amortised cost
Lease receivables		L&R	19,873,470	-	(56,255)	-	19,817,215	Amortised cost
Hire purchase receivables		L&R	252,000	-	1,092	-	253,092	Amortised cost
Other financial assets		L&R	268,737	-	3,930	-	272,667	Amortised cost
Other non financial assets			196,249	-	-	-	196,249	
Financial instruments- available for sale	A	AFS	56	(56)	-	-	-	
Equity instruments at fair value through OCI	A		-	56	-	-	56	FVOCI
Financial investments held to maturity	B	HTM	4,303	(4,303)	-	-	-	
Debt instruments at amortised cost	B		-	4,303	-	-	4,303	Amortised cost
Property, plant & equipment			455,140	-	-	-	455,140	
Intangible assets			8,257	-	-	-	8,257	
Total Assets			29,810,580	-	(207,548)	-	29,603,032	
Liabilities								
Bank overdraft		Amortised cost	456,018	-	-	-	456,018	Amortised cost
Due to other customers		Amortised cost	9,333,622	-	-	-	9,333,622	Amortised cost
Debt issued and other borrowed funds		Amortised cost	16,310,778	-	-	-	16,310,778	Amortised cost
Other financial liabilities		Amortised cost	555,630	-	-	-	555,630	Amortised cost
Other non financial liabilities			219,815	-	-	-	219,815	
Current tax liabilities			91,800	-	-	-	91,800	
Deferred tax liabilities	C		331,469	-	(58,113)	-	273,356	
Retirement benefit obligations			33,163	-	-	-	33,163	
Total Liabilities			27,332,295	-	(58,113)	-	27,274,182	
Equity								
Stated capital			635,917	-	-	-	635,917	
Share application money pending allotment			-	-	-	-	-	
Statutory reserve fund			113,000	-	-	-	113,000	
Revaluation reserve			56,823	-	-	-	56,823	
Retained earnings	Note 6.2		1,672,545	-	(149,435)	-	1,523,110	
Total Equity			2,478,285	-	(149,435)	-	2,328,850	
Total Liabilities and Equity			29,810,580	-	(207,548)	-	29,603,032	

L&R :Loans & receivables
AFS :Available-for-sale
HTM :Held-to-maturity
FVOCI:Fair value through other comprehensive income

A. Financial assets previously classified under available for sale category have been reclassified as financial assets fair value through other comprehensive income (FVOCI) upon adoption of SLFRS 9.

B. As of 1 January 2018, the Company elected to classify its previous held to maturity financial investments as debt instruments measured at amortised cost since these instruments met the "Solely Payments of Principal and Interest" (SPPI) criterion.

C. The impact of adopting SLFRS 9 on deffered tax is set out under Note 6.2 to the Financial Statements.

6. TRANSITION DISCLOSURES (Contd…)

6.2 The impact of transition to SLFRS 9 on retained earnings, is as follows.

	Retained earnings Rs. '000
Closing balance under LKAS 39 as at 31st December 2017	1,672,544
Remeasurement adjustments on adoption of SLFRS 9	
Impact of expected credit losses under SLFRS 9	(207,548)
Deferred tax impact on above	58,113
Total change in equity due to adoption of SLFRS 9	(149,435)
Opening balance under SLFRS 9 as at 1st January 2018	1,523,109

6.3 The following table reconciles the aggregate opening loan loss provision allowances under LKAS 39 to the ECL allowances under SLFRS 9.

	Note	Loan loss provision under LKAS 39 as at 31 December 2017 Rs. '000	Re-measurement Rs. '000	ECLs under SLFRS 9 as at 1 January 2018 Rs. '000
Cash and bank balances	18.1	-	8	8
Placements with banks	19.1	-	20	20
Factoring receivables	21.4	158,044	172,672	330,716
Gold loan receivables	22.3	19,707	(14,101)	5,606
Loan receivables	23.4	34,387	(2,284)	32,103
Lease receivables	24.5	271,554	56,255	327,809
Hire purchase receivables	25.5	39,373	(1,092)	38,281
Provision for repossessed stock	26.1	143,301	-	143,301
Provision for insurance premium receivables	26	3,930	(3,930)	-
		670,296	207,548	877,844

7. NET INTEREST INCOME

	2018 Rs. '000	2017 Rs. '000
7.1 Interest income		
Interest income on lease receivables	4,231,110	2,879,685
Interest income on hire purchase receivables	20,453	86,018
Interest income on factoring receivables	413,110	420,241
Interest income accrued on impaired financial assets	9,763	1,418
Interest income on loan receivables	541,223	373,244
Interest income on gold loan receivables	679,281	497,168
Interest income on government securities	156,362	128,380
Interest income on overdue rentals	326,368	200,953
Interest income on staff loans	17,253	10,627
Interest income on placements with banks	975	1,736
Total interest income	6,395,898	4,599,470
7.2 Interest expenses		
Bank overdraft	15,641	6,316
Short term borrowings	510,729	374,846
Customer deposits	1,090,191	708,135
Long term borrowings	1,515,209	1,221,121
Redeemable debentures	548,290	453,872
Total interest expenses	3,680,060	2,764,290
Net interest income	2,715,838	1,835,180

8. NET FEE AND COMMISSION INCOME

	2018 Rs. '000	2017 Rs. '000
Documentation charges	72,370	50,842
Insurance commission	85,960	66,589
Service charges-Gold loan	106,774	112,227
Processing fees	11,871	13,461
Other fee & commission income	1,663	780
Total fee and commission income	278,637	243,899
Fee and commission expenses		
Guarantee fee	21	680
Total fee and commission expenses	21	680
Net fee and commission income	278,616	243,219

9. OTHER OPERATING INCOME

	2018 Rs. '000	2017 Rs. '000
Profit on early terminations	229,536	177,806
Profit on disposal of motor vehicles	765	1,723
Recovery of bad debts written off	1,386	1,609
Recovery of charges	38,898	27,621
Sundry income	18,259	13,926
Total other operating income	288,844	222,685

10. CREDIT LOSS EXPENSE ON FINANCIAL ASSETS AND OTHER LOSSES

10.1 The table below shows the expected credit loss (ECL) charges for financial instruments for the year 2018 recorded in the income statement.

	2018 Rs. '000 Stage 1	2018 Rs. '000 Stage 2	2018 Rs. '000 Stage 3	2018 Rs. '000 Total
Lease receivables	(21,978)	16,704	291,973	286,699
Hire purchase receivables	(129)	(226)	(4,801)	(5,156)
Factoring receivables	(18,546)	(9,768)	323,445	295,131
Loan receivables	(124)	(3,050)	216,977	213,803
Gold loan receivables	3,370	1,676	(152)	4,894
Repossessed stock	-	-	34,404	34,404
Bank balances and placements with banks	(24)	-	-	(24)
	(37,431)	5,336	861,846	829,751

10.2 The following shows the impairment charges recorded in the income statement under LKAS 39 during the year 2017.

	Individual 2017 Rs. '000	Collective 2017 Rs. '000	Total 2017 Rs. '000
Lease receivables	-	121,571	121,571
Hire purchase receivables	-	(930)	(930)
Factoring receivables	64,109	4,747	68,856
Loan receivables	5,296	28,238	33,534
Gold loan receivables	-	7,298	7,298
Repossessed stock	-	5,411	5,411
Other loans	-	1,004	1,004
	69,405	167,339	236,744

11. PERSONNEL EXPENSES

	2018 Rs. '000	2017 Rs. '000
Salaries and bonus	595,421	513,623
Contribution to defined contribution plan	54,692	45,577
Gratuity charge for the year	11,921	9,175
Others	71,232	42,998
	733,266	611,373

12. OTHER OPEARATING EXPENSES

	2018 Rs. '000	2017 Rs. '000
Directors' emoluments	25,722	18,106
Auditors' remuneration	1,266	1,541
Non- audit fees to auditors	2,994	2,646
Professional & legal expenses	21,431	10,894
Depreciation on property, plant & equipment	52,426	49,839
Amortization of intangible assets	14,023	6,224
Deposit insurance premium	11,993	8,035
Donations	1,000	-
Operating lease expenses	94,006	83,853
Office administration & establishment expenses	208,102	149,776
Advertising expenses	89,167	54,981
Other expenses	73,103	51,022
	595,233	436,917

13. TAXES ON FINANCIAL SERVICES

	2018 Rs. '000	2017 Rs. '000
Value added tax on financial services	228,834	201,414
Nation building tax on financial services	32,437	29,396
Debt repayment levy on financial services	29,988	-
	291,259	230,810

14. INCOME TAX EXPENSE

14.1 The major components of income tax expense for the year ended 31 December are as follows.

Income statement	2018 Rs. '000	2017 Rs. '000
Current tax expense		
Income tax for the year	165,451	148,566
Under/ (Over) provision of current taxes in respect of previous years	(3,977)	(1,942)
	161,474	146,624
Deferred tax expense		
Deferred taxation charge (refer note 35)	155,794	139,754
	317,268	286,378
Effective tax rate	38.05%	36.47%

14.2 A reconciliation of the accounting profit to current tax expense is as follows.

	2018 Rs. '000	2017 Rs. '000
Accounting profit before income taxation	833,789	785,240
At the statutory income tax rate of 28%	233,461	219,867
Tax effect of non deductible expenses	106,040	27,426
Tax effect of other allowable credits	(46,345)	(98,727)
Tax effect of exempt income	-	-
Tax effect of losses claimed	(127,705)	-
Under/ (Over) provision of current taxes in respect of previous years	(3,977)	(1,942)
Deferred tax expense	155,794	139,754
	317,268	286,378

The Company's income is taxed at the rate of 28% during the years 2018 and 2017.

15. EARNINGS PER ORDINARY SHARE - BASIC/DILUTED (Rs.)

	2018	2017
Profit attributable to ordinary shareholders (Rs. 000)	516,521	498,862
Weighted average number of ordinary shares during the year (15.1)	60,651,183	57,346,388
Basic/Diluted earnings per ordinary share- (Rs.)	8.52	8.70

15.1 Weighted average number of ordinary shares (basic)

	Outstanding No: of Shares		Weighted Average No: of Shares	
	2018	2017	2018	2017
Number of shares in issue as at 1 January	55,777,146	54,124,726	55,777,146	54,124,726
Add:Number of shares issued due to scrip dividend 2017	-	1,652,420	-	1,652,420
	55,777,146	55,777,146	55,777,146	55,777,146
Add:Number of shares issued due to scrip dividend 2018	1,569,242	1,569,242	1,569,242	1,569,242
Add:Number of shares issued under rights issue 2018	6,250,000	-	3,304,795	-
Number of shares in issue/weighted average number of ordinary shares at 31st December	63,596,388	57,346,388	60,651,183	57,346,388

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these financial statements, which would require the restatement of EPS.

16. DIVIDEND PAID

	2018	2017
Scrip dividends paid (Rs. 000)	69,721	65,491
Number of Ordinary Shares	55,777,146	54,124,726
Dividends per Ordinary Share (Rs.)	1.25	1.21

A scrip dividend of Rs. 1.25 per share for the year 2017 was paid in March 2018. (a scrip dividend of Rs. 1.21 per share for the year 2016 was paid in March 2017)

17. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

Financial Instruments are measured on an ongoing basis either at fair value or at amortised cost. The summary of Significant Accounting Policies describes how each category of financial instruments is measured and how income and expenses, including fair value gains and losses, are recognised.The following table provides a reconciliation between line items in the Statement of Financial Position and categories of financial instruments.

17.1 Analysis of Financial Instruments by Measurement Basis

As at 31 December 2018	Amortised Cost Rs'000	Equity instruments-FVOCI Rs'000	Total Rs'000
Financial Assets			
Cash and bank balances	191,556	-	191,556
Securities purchased under repurchase agreements	1,768,461	-	1,768,461
Factoring receivables	1,332,310	-	1,332,310
Gold loan receivables	3,548,666	-	3,548,666
Loan Receivables	2,481,575	-	2,481,575
Lease receivables	25,601,932	-	25,601,932
Hire purchase receivables	48,525	-	48,525
Other assets	370,267	-	370,267
Equity instruments at fair value through OCI	-	56	56
Debt instruments at amortised cost	4,319	-	4,319
Total Financial Assets	35,347,611	56	35,347,667
Financial Liabilities			
Bank overdraft	321,821	-	321,821
Due to other customers	9,672,008	-	9,672,008
Debt issued and other borrowed funds	21,391,367	-	21,391,367
Other payables	398,769	-	398,769
Total Financial Liabilities	31,783,965	-	31,783,965

As at 31 December 2017	Amortised Cost Rs'000	Held to Maturity Rs'000	Available for Sale Rs'000	Total Rs'000
Financial Assets				
Cash and bank balances	297,858	-	-	297,858
Placements with banks	65,699	-	-	65,699
Securities purchased under repurchase agreements	1,200,981	-	-	1,200,981
Factoring receivables	1,899,702	-	-	1,899,702
Gold loan receivables	2,563,352	-	-	2,563,352
Loan Receivables	2,724,776	-	-	2,724,776
Lease receivables	19,873,470	-	-	19,873,470
Hire purchase receivables	252,000	-	-	252,000
Other assets	268,737	-	-	268,737
Financial instruments- Available for sale	-	-	56	56
Financial investments- Held to maturity	-	4,303	-	4,303
Total Financial Assets	29,146,575	4,303	56	29,150,934
Financial Liabilities				
Bank overdraft	456,018	-	-	456,018
Due to other customers	9,333,622	-	-	9,333,622
Debt issued and other borrowed funds	16,310,778	-	-	16,310,778
Other payables	555,630	-	-	555,630
Total Financial Liabilities	26,656,048	-	-	26,656,048

18. CASH AND BANK BALANCES

	2018 Rs. '000	2017 Rs. '000
Cash in hand	159,797	272,766
Balances with local banks	31,762	25,092
Less: Allowance for expected credit losses	(4)	-
	191,556	297,858

18.1 The movement in provision for expected credit losses are as follows.

	2018 Rs. '000 Stage 1	2018 Rs. '000 Total
Balance as at 01st January	8	8
Charge/(Reversal) for the year	(4)	(4)
Balance as at 31st December	4	4

19. PLACEMENTS WITH BANKS

	2018 Rs. '000	2017 Rs. '000
Placements with banks	-	65,699
Less: Allowance for expected credit losses	-	-
	-	65,699

19.1 The movement in provision for expected credit losses are as follows.

	2018 Rs. '000 Stage 1	2018 Rs. '000 Total
Balance as at 01st January	20	20
Charge/(Reversal) for the year	(20)	(20)
Balance as at 31st December	-	-

20. SECURITIES PURCHASED UNDER REPURCHASE AGREEMENTS

	2018 Rs. '000	2017 Rs. '000
Securities purchased under repurchase agreements	1,768,461	1,200,981
	1,768,461	1,200,981

21. FACTORING RECEIVABLES

	2018 Rs. '000	2017 Rs. '000
Factoring receivables	1,948,385	2,057,746
Less: VAT suspense	(166)	-
Gross factoring receivable	1,948,219	2,057,746
Less : Allowance for expected credit losses/ individual impairment(Note 21.2)	(586,145)	(151,166)
Allowance for expected credit losses/ collective impairment(Note 21.3)	(29,764)	(6,878)
	1,332,310	1,899,702

21.1 Analysis of factoring receivables on maximum exposure to credit risk
As at 31 December 2018

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Individually impaired factoring receivables	566,780	188,699	1,028,540	1,784,019
factoring receivables subject to collective impairment	162,871	1,329	-	164,200
Gross factoring receivables	729,651	190,028	1,028,540	1,948,219
Allowance for expected credit losses(ECL)	(21,898)	(8,819)	(585,192)	(615,909)
	707,753	181,209	443,348	1,332,310

21.2 Allowance for expected credit losses/Impairment
Individually impaired loans

	2018 Rs. '000	2017 Rs. '000
Balance as at 01st January	151,166	88,475
Charge/ (Reversal) to income statement	444,917	64,109
Write-off during the year	(175)	-
Interest income accrued on impaired loans(Note 7.1)	(9,763)	(1,418)
Balance as at 31st December	586,145	151,166

21. FACTORING RECEIVABLES (Contd..)

21.3 Allowance for expected credit losses/Impairment

Loans subject to collective impairment	2018 Rs. '000	2017 Rs. '000
Balance as at 01st January	6,878	2,131
Impact of adoption of SLFRS 09 as at 01st January 2018 (Note 6)	172,672	-
	179,550	2,131
Charge/ (Reversal) to income statement	(149,786)	4,747
Balance as at 31st December	29,764	6,878

21.4 Movement in allowance for expected credit losses

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Balance as at 01st Janaury 2018	40,444	18,587	271,685	330,716
Charge/ (Reversal) to income statement (Note 10.1)	(18,546)	(9,768)	323,445	295,131
Write-off during the year	-	-	(175)	(175)
Interest income accrued on impaired loans(Note 7.1)	-	-	(9,763)	(9,763)
Balance as at 31st December 2018	21,898	8,819	585,192	615,909

22. GOLD LOAN RECEIVABLES

	2018 Rs. '000	2017 Rs. '000
Gold loan receivables	3,559,166	2,583,059
Less : Allowance for expected credit losses/ collective impairment(Note 22.2)	(10,500)	(19,707)
	3,548,666	2,563,352

22.1 Analysis of gold loan receivables on maximum exposure to credit risk
As at 31 December 2018

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Gross factoring receivables- subject to collective impairment	2,636,087	895,841	27,238	3,559,166
Allowance for expected credit losses(ECL)	(5,177)	(4,027)	(1,296)	(10,500)
	2,630,910	891,814	25,942	3,548,666

22.2 Allowance for expected credit losses/Impairment

Loans subject to collective impairment	2018 Rs. '000	2017 Rs. '000
Balance as at 01st January	19,707	12,409
Impact of adoption of SLFRS 09 as at 01st January 2018 (Note 6)	(14,101)	-
	5,606	12,409
Charge/ (Reversal) to income statement	4,894	7,298
Balance as at 31st December	10,500	19,707

22.3 Movement in allowance for expected credit losses

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Balance as at 01st Janaury 2018	1,807	2,351	1,448	5,606
Charge/ (Reversal) to income statement (Note 10.1)	3,370	1,676	(152)	4,894
Balance as at 31st December 2018	5,177	4,027	1,296	10,500

23. LOAN RECEIVABLES

	2018 Rs. '000	2017 Rs. '000
Revolving loan receivables	190,132	287,394
Vehicle loan receivables	18,602	76,114
Personal/Business loan receivables	2,518,747	2,395,655
Gross loan receivables	2,727,481	2,759,163
Less : Allowance for expected credit losses/ individual impairment(Note 23.2)	(94,778)	(5,296)
Less : Allowance for expected credit losses/ collective impairment(Note 23.3)	(151,128)	(29,091)
	2,481,575	2,724,776

23.1 Analysis of loan receivables on maximum exposure to credit risk
As at 31 December 2018

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Individually impaired loan receivables	52,964	83,678	317,241	453,883
loan receivables subject to collective impairment	1,190,819	389,615	693,164	2,273,598
Allowance for expected credit losses(ECL)	(7,479)	(7,817)	(230,610)	(245,906)
	1,236,304	465,476	779,795	2,481,575

23.2 Allowance for expected credit losses/Impairment
Individually impaired loans

	2018 Rs. '000	2017 Rs. '000
Balance as at 01st January	5,296	-
Charge/ (Reversal) to income statement	89,482	5,296
Balance as at 31st December	94,778	5,296

23.3 Allowance for expected credit losses/Impairment
Loans subject to collective impairment

	2018 Rs. '000	2017 Rs. '000
Balance as at 01st January	29,091	853
Impact of adoption of SLFRS 09 as at 01st January 2018 (Note 6)	(2,284)	-
	26,807	853
Charge/ (Reversal) to income statement	124,321	28,238
Balance as at 31st December	151,128	29,091

23.4 Movement in allowance for expected credit losses

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Balance as at 01st Janaury 2018	7,603	10,867	13,633	32,103
Charge/ (Reversal) to income statement (Note 10.1)	(124)	(3,050)	216,977	213,803
Balance as at 31st December 2018	7,479	7,817	230,610	245,906

24. LEASE RECEIVABLES
At Amortized cost

	2018 Rs. '000	2017 Rs. '000
Total lease rentals receivable	35,056,721	27,038,685
Less: Unearned lease interest income	(8,834,535)	(6,887,798)
Less: VAT suspense	(5,562)	(5,679)
Less: Prepaid rentals	(184)	(184)
Gross lease receivable	26,216,440	20,145,024
Less: Allowance for expected credit losses/ collective impairment(Note 24.4)	(614,508)	(271,554)
Net lease receivable (Note 24.1 & 24.2)	25,601,932	19,873,470

Lease receivables include receivables amounting to Rs.18,436,792,074/- (2017- Rs.15,972,916,787/-) that have been assigned under securitization & term loan funding arrangement.

24. LEASE RECEIVABLES (Contd..)

24.1 Maturity analysis of net lease receivable
As at 31 December 2018

	1 Year	1- 5 Year	More than 5 Year	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Total lease rentals receivable (Net of VAT suspense and prepaid r	12,998,466	21,949,068	103,441	35,050,975
Less: Unearned lease interest income	(3,958,527)	(4,868,635)	(7,373)	(8,834,535)
Gross lease receivable	9,039,939	17,080,433	96,068	26,216,440
Less: Allowance for expected credit losses	(211,625)	(400,530)	(2,353)	(614,508)
Net lease receivable	8,828,314	16,679,903	93,715	25,601,932

24.2 Maturity analysis of net lease receivable
As at 31 December 2017

	1 Year	1- 5 Year	More than 5 Year	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Total lease rentals receivable (Net of VAT suspense and prepaid r	9,455,211	17,522,892	54,719	27,032,822
Less: Unearned lease interest income	(3,096,781)	(3,787,154)	(3,863)	(6,887,798)
Gross lease receivable	6,358,430	13,735,738	50,856	20,145,024
Less: Provision for collective impairment	(86,409)	(184,449)	(696)	(271,554)
Net lease receivable	6,272,021	13,551,289	50,160	19,873,470

24.3 Analysis of lease receivables on maximum exposure to credit risk
As at 31 December 2018

	Stage 1	Stage 2	Stage 3	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross lease receivables- subject to collective impairment	16,689,192	6,752,948	2,774,300	26,216,440
Allowance for expected credit losses(ECL)	(39,697)	(89,466)	(485,345)	(614,508)
	16,649,495	6,663,482	2,288,955	25,601,932

24.4 Allowance for expected credit losses/Impairment
Loans subject to collective impairment

	2018	2017
	Rs. '000	Rs. '000
Balance as at 01st January	271,554	149,983
Impact of adoption of SLFRS 09 as at 01st January 2018 (Note 6)	56,255	-
	327,809	149,983
Charge/ (Reversal) to income statement	286,699	121,571
Balance as at 31st December	614,508	271,554

24.5 Movement in allowance for expected credit losses

	Stage 1	Stage 2	Stage 3	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 01st Janaury 2018	61,675	72,762	193,372	327,809
Charge/ (Reversal) to income statement (Note 10.1)	(21,978)	16,704	291,973	286,699
Balance as at 31st December 2018	39,697	89,466	485,345	614,508

25. HIRE PURCHASE RECEIVABLES

	2018 Rs. '000	2017 Rs. '000
Total hire purchase rentals receivable	84,656	318,938
Less: Unearned hire purchase interest income	(3,006)	(27,565)
Gross hire purchase receivable	81,650	291,373
Less: Allowance for expected credit losses/ collective impairment(Note 25.4)	(33,125)	(39,373)
Net hire purchase receivable (Note 25.1 & 25.2)	48,525	252,000

Hire purchase receivables include receivables amounting to Rs.38,820,419/-(2017-Rs.245,390,695/-) that have been assigned under a securitization & term loan funding arrangement.

25.1 Maturity analysis of net hire purchase receivable
As at 31 December 2018

	1 Year Rs. '000	1- 5 Year Rs. '000	More than 5 Year Rs. '000	Total Rs. '000
Total hire purchase rentals receivable	79,287	3,284	2,085	84,656
Less: Unearned hire purchase interest income	(2,369)	(535)	(102)	(3,006)
Gross hire purchase receivable	76,918	2,749	1,983	81,650
Less: Allowance for expected credit losses	(30,977)	(1,435)	(713)	(33,125)
	45,941	1,314	1,270	48,525

25.2 Maturity analysis of net hire purchase receivable
As at 31 December 2017

	1 Year Rs. '000	1- 5 Year Rs. '000	More than 5 Year Rs. '000	Total Rs. '000
Total hire purchase rentals receivable	253,540	65,398	-	318,938
Less: Unearned hire purchase interest income	(24,062)	(3,503)	-	(27,565)
Gross hire purchase receivable	229,478	61,895	-	291,373
Less: Provision for collective impairment	(31,308)	(8,065)	-	(39,373)
	198,170	53,830	-	252,000

25.3 Analysis of hire purchase receivables on maximum exposure to credit risk
As at 31 December 2018

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Gross hire purchase receivables- subject to collective impairment	26,346	11,337	43,967	81,650
Allowance for expected credit losses(ECL)	(16)	(17)	(33,092)	(33,125)
	26,330	11,320	10,875	48,525

25.4 Allowance for expected credit losses/Impairment
Loans subject to collective impairment

	2018 Rs. '000	2017 Rs. '000
Balance as at 01st January	39,373	40,303
Impact of adoption of SLFRS 09 as at 01st January 2018 (Note 6)	(1,092)	-
	38,281	40,303
Charge/ (Reversal) to income statement	(5,156)	(930)
Balance as at 31st December	33,125	39,373

25.5 Movement in allowance for expected credit losses

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Balance as at 01st Janaury 2018	145	243	37,893	38,281
Charge/ (Reversal) to income statement (Note 10.1)	(129)	(226)	(4,801)	(5,156)
Balance as at 31st December 2018	16	17	33,092	33,125

26. OTHER ASSETS

	2018 Rs. '000	2017 Rs. '000
Financial Assets		
Repossessed stock	177,654	143,301
Less: Provision for repossessed stock (Note 26.1)	(177,654)	(143,301)
Insurance premium receivable	191,068	146,088
Less: Provision for insurance premium receivable	-	(3,930)
Staff loan	171,420	107,803
Less:Staff loan fair value adjustment	(23,716)	(13,237)
Insurance commission receivable	23,902	21,086
Other financial assets	7,593	10,927
	370,267	268,737
Non Financial Assets		
Pre paid expenses	50,767	54,896
Pre-paid staff cost	23,716	13,237
Advance payments	4,546	68,329
Inventories	2,646	2,901
Taxes receivable	22,730	48,171
Other non financial assets	14,884	8,715
	119,289	196,249
	489,556	464,986

26.1 Movement in provision for repossessed stock

As at 31 December 2018

	Lease Rs. '000	Hire purchase Rs. '000	Loan Rs. '000	Factoring Rs. '000	Total Rs. '000
Balance as at 01st January	105,619	31,083	4,941	1,658	143,301
Charge/ (Reversal) during the Year	33,315	498	(40)	631	34,404
Other movements	-	-	-	(51)	(51)
Balance as at 31st December	138,934	31,581	4,901	2,239	177,654

Repossessed stock of the Company and the corresponding ECL allowances are grouped under Stage 3.

As at 31 December 2017

	Lease Rs. '000	Hire purchase Rs. '000	Loan Rs. '000	Factoring Rs. '000	Total Rs. '000
Balance as at 01st January	100,531	31,183	4,920	1,256	137,890
Charge/ (Reversal) during the Year	5,088	(100)	21	402	5,411
Other movements	-	-	-	-	-
Balance as at 31st December	105,619	31,083	4,941	1,658	143,301

27. FINANCIAL INSTRUMENTS -FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE FOR SALE

	2018 Rs. '000	2017 Rs. '000
Financial instruments- available-for-sale	-	56
Equity instruments at fair value through OCI	56	-
	56	56

Unquoted available for sale investments/equity instruments at FVOCI are recorded at cost, since there is no market value for these investments and the company intends to hold them for the long run.

In 2018, the Company received dividends of Rs.240,000/-(2017-Rs.180,000/-) from these unquoted equity investments, recorded as other operating income.

28. FINANCIAL INVESTMENTS- HELD TO MATURITY/DEBT INSTRUMENTS AT AMORTISED COST

	2018 Rs. '000	2017 Rs. '000
Financial investments held to maturity	-	4,303
Debt instruments at amortised cost	4,319	-
	4,319	4,303

The Company has classified its investments in government debt securities-Treasury bonds previously classified as financial investments held to maturity as debt instruments at amortised cost.

29. PROPERTY, PLANT AND EQUIPMENT

29.1 Cost/Valuation

	Balance as at 31.12.2017 Rs. '000	Additions Rs. '000	Revaluation surplus Rs. '000	Disposals Rs. '000	Balance as at 31.12.2018 Rs. '000
Freehold Land	283,000	-	70,750	-	353,750
Fixtures	128,413	27,234	-	-	155,647
Office furniture	30,180	6,524	-	-	36,704
Office equipment	64,428	11,883	-	-	76,311
Motor vehicles	11,471	980	-	(3,922)	8,529
Computer equipment	88,161	6,853	-	-	95,014
Capital work-in progress	16,128	88,481	-	-	104,609
Total Cost/ Valuation	621,781	141,955	70,750	(3,922)	830,564

29.2 Accumulated Depreciation

	Balance as At 31.12.2017 Rs. '000	Charge for the year Rs. '000	Disposals Rs. '000	Balance as at 31.12.2018 Rs. '000
Freehold Land	-	-	-	-
Fixtures	65,143	25,696	-	90,839
Office furniture	15,844	4,050	-	19,894
Office equipment	31,233	9,302	-	40,535
Motor vehicles	10,196	953	(3,905)	7,244
Computer equipment	44,225	12,425	-	56,650
Capital work-in progress	-	-	-	-
	166,641	52,426	(3,905)	215,162

29.3 Net book values

	2018 Rs. '000	2017 Rs. '000
Freehold Land	353,750	283,000
Fixtures	64,808	63,270
Office furniture	16,810	14,336
Office equipment	35,776	33,195
Motor vehicles	1,285	1,275
Computer equipment	38,364	43,936
Capital work-in progress	104,609	16,128
	615,402	455,140
Total carrying amount of Property, Plant & Equipment	615,402	455,140

29.4 During the financial year, the Company acquired property, plant & equipment to the aggregate value of Rs.141.96 Million (2017 Rs.68.45 Million).

Cost of fully depreciated assets of the Company which are still in use as at 31 December 2018 is Rs.79.34 Million (2017 - Rs.44.16 Million).

29. PROPERTY, PLANT AND EQUIPMENT (Contd..)

29.5 Fair value related disclosures of freehold land

Freehold land located at 534,Baudhaloka Mawatha, Colombo 08 is carried at the revalued amount, being the fair value at the valuation date less any subsequent accumulated impairment losses. The independent valuers provide the fair value of land and buildings once in three years or more frequently if the fair values are substantially different from carrying amounts according to the Company policy. Therefore the fair value exist in the recent valuation (31 December 2018) which was carried out by professionally qualified independent valuer in compliance with Sri Lanka Accounting Standard-SLFRS 13(Fair Value Measurement) less subsequent impairment losses considered as the fair value exist as at the reporting date(31 December 2018).

Fair value hierarchy

The fair value of the Company's freehold land is categorised into Level 3 of the fair value hierarchy.

Level 3 fair value

The following table shows a reconciliation from the beginning balances to the closing balances for the fair value measurements to the Company’s freehold land.

	Rs'000
Balance at 1 January 2018	283,000
Acquisition	-
Changes in fair value	70,750
Balance at 31 December 2018	353,750

Valuation techniques and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of freehold land, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs	Range (weighted average) 2018
Market Comparable Method	Estimated price per perch Land extent: 28.3 perches	Rs.5 Million-Rs.15 Million

29.6 The carrying value of Company's revalued freehold land,if it was carried at cost,would be as follows.

	2018 Cost Rs. '000	2018 Carrying value Rs. '000	2017 Cost Rs. '000	2017 Carrying value Rs. '000
Freehold land	204,079	204,079	204,079	204,079
	204,079	204,079	204,079	204,079

30. INTANGIBLE ASSETS

	2018 Rs. '000	2017 Rs. '000
Cost as at 01 January	52,426	46,434
Additions and improvements	89,738	5,992
Cost as at 31 December	142,164	52,426
Amortisation as at 01 January	44,169	37,945
Amortisation for the year	14,023	6,224
Accumulated amortisation as at 31 December	58,192	44,169
Net book value as at 31 December	83,972	8,257

During the financial year, the Company acquired intangible assets (Computer Software) to the aggregate value of Rs.89.73 Million (2017 - Rs.5.99 million).Cost of fully amortised intangible assets of the Company as at 31 December 2018 is Rs. 40.2 Million (2017 - Rs. 34.13 Million). Useful life of the above is estimated as 4 years.

31. DUE TO OTHER CUSTOMERS

	2018 Rs. '000	2017 Rs. '000
Fixed deposits	9,623,744	9,323,604
Saving deposits	48,264	10,018
	9,672,008	9,333,622

32. DEBT ISSUED AND OTHER BORROWED FUNDS

	2018 Rs. '000	2017 Rs. '000
Loans (32.2)	16,731,432	11,651,511
Redeemable debentures (32.3)	4,659,935	4,659,267
	21,391,367	16,310,778

The company has not had any default of principal, interest or other breaches with regard to any liability during 2017 & 2018.

32.1 Movement in Debt issued and other borrowed funds

	2017	Grantings/ Accrual	Repayments	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Long-term borrowings	10,039,631	8,350,000	(5,821,539)	12,568,092
Short-term borrowings	1,575,000	2,525,000	-	4,100,000
Redeemable debentures	4,500,000	-	-	4,500,000
Capital outstanding of debt issued and other borrowed funds	16,114,631	10,875,000	(5,821,539)	21,168,092
Interest on debt issued and other borrowed funds	196,147	2,589,869	(2,562,741)	223,275
	16,310,778	13,464,869	(8,384,280)	21,391,367

32.2 Loans - on terms

	Period	Amortised cost 2018 Rs'000	Amortised cost 2017 Rs'000
Short term loans			
Sampath Bank PLC	01 Month	1,754,504	-
Hatton National Bank PLC	03 Months	754,541	-
Muslim Commercial Bank	03 Months	100,038	200,200
Nations Trust Bank PLC	03 Months	1,510,505	1,381,676
		4,119,588	1,581,876
Long term loans			
Sampath Bank PLC	60 Months	3,495,514	1,487,204
Commercial Bank PLC	36-60 Months	2,573,082	3,181,336
Hatton National Bank PLC	60 Months	3,236,180	2,267,796
Nations Trust Bank PLC	60 Months	-	114,828
Seylan Bank PLC	60 Months	3,156,258	2,141,920
Union Bank PLC	60 Months	-	675,369
Muslim Commercial Bank	60 Months	150,810	201,182
		12,611,844	10,069,635
		16,731,432	11,651,511

The above short term loans and long lerm loans were institution wise aggregated values as at 31 December 2018 and 31 December 2017.

32. DEBT ISSUED AND OTHER BORROWED FUNDS (Contd..)

32.2.1 Loans - on maturity

	Payable within 1 year Rs'000	Payable after 1 year Rs'000	Total Rs'000
Short term loans and long lerm loans payable	9,202,084	7,529,348	16,731,432
	9,202,084	7,529,348	16,731,432

32.3 Redeemable debentures - movement

	2018 Rs'000	2017 Rs'000
Balance as at 01st January	4,500,000	3,500,000
Debentures issued	-	1,000,000
	4,500,000	4,500,000
Interest payable	703,658	565,656
Interest paid	(543,723)	(406,389)
Balance as at 31st December	4,659,935	4,659,267

32.3.1 Redeemable debentures - maturity

	Payable within 1 Year Rs'000	Payable after 1 Year Rs'000	Total Rs'000
Debentures payable	2,581,925	2,078,010	4,659,935
	2,581,925	2,078,010	4,659,935

32.3.2 Details of debentures issued

	No of Debentures	Issue Date	Maturity Date	Rate of interest	Amortised cost 2018 Rs'000	Amortised cost 2017 Rs'000
Rated unsecured subordinated redeemable debentures	10,000,000	24-Dec-14	24-Dec-19	8.90%	1,036,223	1,035,555
Rated unsecured senior redeemable debentures						
Type A	14,219,900	20-Sep-16	20-Sep-19	13.00%	1,474,156	1,474,156
Type B	10,780,100	20-Sep-16	20-Sep-21	13.50%	1,119,077	1,119,077
Rated unsecured subordinated redeemable debentures	10,000,000	4-Oct-17	4-Oct-22	12.50%	1,030,479	1,030,479
					4,659,935	4,659,267

The Company has fully utilised the funds raised through debenture issues for the purposes specified in relevant prospectus.

33. OTHER PAYABLES

	2018 Rs'000	2017 Rs'000
Financial Liabilities		
Vendor payable	147,980	346,901
Insurance premium payable	119,113	107,429
Other financial liabilities	131,676	101,300
	398,769	555,630
Non Financial Liabilities		
VAT payable	-	2,744
Other taxes payable	116,496	106,880
Accrued expenses	34,950	30,444
Deposit insurance premium	1,050	1,061
Deferred guarantee income	49	3
Other non financial liabilities	49,422	78,683
	201,967	219,815
	600,736	775,445

34. CURRENT TAX LIABILITIES

	2018 Rs'000	2017 Rs'000
Balance as at 1st January	91,800	61,257
Less: Tax paid	(39,761)	(58,749)
Adjustment (ESC/WHT/Notional Tax etc.)	(64,498)	(57,332)
Provision for the year (Note 14)	161,474	146,624
Balance as at 31st December	149,015	91,800

34.1 Notional tax credit on secondary market transactions

As per the Section 137 of the Inland Revenue Act No.10 of 2006 (Applicable up to 31 March 2018),any company which derives income from secondary market transactions involving any security or treasury bonds or treasury bills on which the income tax has been deducted at the rate of 10% at the time of issue of such security, is entitled to a notional tax credit at 10% of the grossed up amount of net interest income from such secondary market transactions to an amount of one ninth of the same.Accordingly,the net interest income earned by the Company from such transactions has been grossed up in the Financial Statements for the year ended 31 December 2018 and the notional tax credit amounts to Rs.4.12 Million(2017- Rs.12.84 Million).

35. DEFERRED TAX LIABILITIES/(ASSETS)

Deferred Tax (Assets), Liabilities and Income Tax relates to the following

	Accelerated depreciation for tax purposes		Provision for loan losses	Revaluation on land	Retirement benefit obligation	Tax losses on leasing operation	Total
	Property, plant & equipment	Leased assets					
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Balance as at 1 January 2017	74,953	587,323	(38,721)	-	(6,443)	(447,024)	170,088
Income statement(Note 14.1)	(5,657)	387,220	7,450	-	(2,371)	(246,888)	139,754
Other comprehensive income	-	-	-	22,098	(471)	-	21,627
Balance as at 31 December 2017	69,296	974,543	(31,271)	22,098	(9,285)	(693,912)	331,469
Balance as at 31 December 2017	69,296	974,543	(31,271)	22,098	(9,285)	(693,912)	331,469
Impact of adoption of SLFRS 9(Note 6)	-	-	(58,113)	-	-	-	(58,113)
Balance as at 1 January 2018	69,296	974,543	(89,384)	22,098	(9,285)	(693,912)	273,356
Income statement(Note 14.1)	(49,272)	(481,651)	(4,417)	-	(2,778)	693,912	155,794
Other comprehensive income	-	-	-	19,810	643	-	20,453
Balance as at 31 December 2018	20,024	492,892	(93,801)	41,908	(11,420)	-	449,603

36. RETIREMENT BENEFIT OBLIGATIONS

An actuarial valuation of the gratuity fund of the Company was carried out as at 31 December 2018 by Messrs. Piyal S Goonethilleke & Associates, a firm of professional actuaries. The valuation method used by the actuary to value the fund is the "Projected Unit Credit Actuarial Cost Method", recommended by Sri Lanka Accounting Standard-LKAS 19 (Employee Benefits).

36.1 Defined benefit obligation reconciliation

	2018 Rs'000	2017 Rs'000
Balance as at 01st January	33,163	23,013
Amount recognised in the income statement (36.2)	11,921	9,175
Amounts recognised in other comprehensive income (36.3)	(2,295)	1,683
Benefits paid by the plan	(2,000)	(708)
Balance as at 31st December	40,789	33,163

36.2 Amount recognised in the Income Statement

	2018 Rs'000	2017 Rs'000
Current service cost for the year	8,459	6,413
Interest on the defined benefit liability	3,462	2,762
Total amount recognised in income statement	11,921	9,175

36.3 Amounts recognised in Other Comprehensive Income (OCI)

	2018 Rs'000	2017 Rs'000
Liability (gains)/losses due to changes in assumptions	(3,362)	48
Liability experience (gains)/losses arising during the year	1,067	1,635
Total amount recognized in OCI	(2,295)	1,683

36.4 Assumptions

	2018	2017
Discount rate	12.23%	10.44%
Future salary increment rate	10.00%	9.44%
Mortality	GA 1983 Mortality Table	GA 1983 Mortality Table
Retirement age	Normal retirement age, or age on valuation date, if greater	Normal retirement age, or age on valuation date, if greater

Expected average future working life of the active participants is 14.1 years. (2017: 11.1 years)

36. RETIREMENT BENEFIT OBLIGATIONS (Contd..)

36.5 Sensitivity assumptions employed in actuarial valuation

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

The sensitivity of the Income Statement and Gratuity liability is the effect of the assumed changes in discount rate and salary increment rate on the profit or loss and employment benefit obligation for the year.

		2018		2017	
Variable	**Rate Change**	**Sensitivity Effect on gratuity liability-Increase/(Decrease) in the Liability (Rs. Mn.)**	**Sensitivity Effect on Comprehensive Income-(Charged)/ Reversal (Rs. Mn.)**	**Sensitivity Effect on gratuity liability-Increase/ (Decrease) in the Liability (Rs. Mn.)**	**Sensitivity Effect on Comprehensive Income-(Charged)/ Reversal (Rs. Mn.)**
Discount rate	1.00%	(4.51 Million)	4.51 Million	(3.62 Million)	3.62 Million
Discount rate	-1.00%	5.31 Million	(5.31 Million)	4.26 Million	(4.26 Million)
Salary Increment rate	1.00%	5.26 Million	(5.26 Million)	4.18 Million	(4.18 Million)
Salary Increment rate	-1.00%	(4.55 Million)	4.55 Million	(3.63 Million)	3.63 Million

37. STATED CAPITAL

	2018		2017	
	No. of shares	**Rs.000**	**No. of shares**	**Rs.000**
Issued and Fully Paid-Ordinary shares				
Ordinary shares as at 01st January	55,777,146	635,917	54,124,726	576,975
Rights issue	6,250,000	250,000	-	-
Scrip dividend	1,569,242	62,749	1,652,420	58,942
Ordinary shares as at 31st December	63,596,388	948,666	55,777,146	635,917

The holders of ordinary shares are entitled to receive a dividend as declared from time to time and are entitled to one vote per share at the Annual General Meeting of the Company.

37.1 Share application money pending allotment

Share application money pending allotment represents applications received from existing shareholders on rights issue of shares.

The equity shares are expected to be allotted against the share application money within a reasonable period, not later than three months from the reporting date.

38. STATUTORY RESERVE FUND

The statutory reserve fund is maintained as required by Finance Companies (Capital Funds) Direction No.1 of 2003 as Finance Companies Act (amended) issued to Registered Finance Companies. As per the said Direction, every Registered Finance Company shall maintain a reserve fund, out of the net profit for each year after provisions for taxation and bad and doubtful debts. Accordingly 5% of the net profit for the year transferred to Reserve Fund as long as the capital funds are not less than 25% of total deposit liabilities.

As at 31 December	**2018**	**2017**
	Rs.000	**Rs.000**
Balance as at 01st January	113,000	86,422
Transfer during the year	26,000	26,578
Balance as at 31st December	139,000	113,000

39. REVALUATION RESERVE

Revaluation Reserve represents the fair value changes of freehold land as at the date of revaluation.

As at 31 December	**2018**	**2017**
	Rs.000	**Rs.000**
Balance as at 01st January	56,823	-
Revaluation surplus(net of tax)	50,940	56,823
Balance as at 31st December	107,763	56,823

40. RETAINED EARNINGS

This represents the undistributed earnings held by the Company to be used in the Company's operations. This could be used to absorb future possible losses or dividends payable.

41. FAIR VALUE OF ASSET AND LIABILITIES

The following describes the methodologies and assumptions used to determine fair value of those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short term maturity (less than a year) it is assumed that the carrying amounts approximate their fair value.

Equity instruments at fair value through OCI/Financial Assets-Available for Sale

Equity instruments at fair value through OCI/Available for sale financial assets primarily consist of unquoted equity securities.Unquoted equity securities are carried at cost since it is the most reasonable value available to represent the price of such securities.

Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments.The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using market interest rates for debts with similar credit risk and maturity.For quoted debt issued,the fair values are determined based on quoted market prices.

Variable rate Financial Instruments

Variable rate is a fair measure which reflects market movements.Hence the carrying value represents the fair value of the variable rate instruments.

Set out below is the comparison, by class, of the carrying amounts of fair values of the Company's financial instruments that are not carried at fair value and non financial assets carried at fair value in the financial statements.

	2018 Rs. '000					2017 Rs. '000				
		Fair value measurement using					Fair value measurement using			
FINANCIAL ASSETS	**Carrying value**	**Quoted prices in active markets (Level I)**	**Significant observable inputs (Level 2)**	**Siginificant unobservable inputs (Level 3)**	**Total**	**Carrying value**	**Quoted prices in active markets (Level I)**	**Significant observable inputs (Level 2)**	**Siginificant unobservable inputs (Level 3)**	**Total**
Factoring receivables	1,332,310	-	2,019,998	-	2,019,998	1,899,702	-	1,987,232	-	1,987,232
Gold loan receivables	3,548,666	-	3,540,285	-	3,540,285	2,563,352	-	2,552,178	-	2,552,178
Loan receivables	2,481,575	-	2,544,535	-	2,544,535	2,724,776	-	2,676,808	-	2,676,808
Lease receivables	25,601,932	-	26,147,267	-	26,147,267	19,873,470	-	19,989,593	-	19,989,593
Financial investments held to maturity	-	-	-	-	-	4,303	-	4,210	-	4,210
Debt instruments at amortised cost	4,319	-	4,102	-	4,102	-	-	-	-	-
Financial instruments- available for sale	-	-	-	-	-	56	-	-	56	56
Equity instruments at fair value through OCI	56	-	-	56	56	-	-	-	-	-
Hire purchase receivables	48,525	-	88,466	-	88,466	252,000	-	292,085	-	292,085
TOTAL FINANCIAL ASSETS	33,017,383	-	34,344,653	56	34,344,709	27,317,659	-	27,502,106	56	27,502,161
FINANCIAL LIABILITIES										
Due to other customers	9,672,008	-	9,996,855	-	9,996,855	9,333,622	-	9,714,323	-	9,714,323
Debt instruments issued and other borrowed funds	21,391,367	-	20,815,613	-	20,815,613	16,310,778	-	16,281,390	-	16,281,390
TOTAL FINANCIAL LIABILITIES	31,063,375	-	30,812,468	-	30,812,468	25,644,400	-	25,995,713	-	25,995,713

There were no transfers between levels of fair value hierachy during 2018 and 2017.

The following table lists those financial instruments for which their carrying amounts are a reasonable appoximation of fair values because, for example, they are short term in nature ore re-priced to current market rates frequently.

Assets

Cash and bank balances
Securities purchased under repurchase agreements
Placements with banks
Other assets

Liabilities

Bank overdraft
Other payables

42. RISK MANAGEMENT

42.1 Introduction

Risk is inherent in the financial business and such risks are managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities.

The Company is mainly exposed to Credit Risk, Interest Rate Risk, Liquidity Risk, Operational Risk, Regulatory & Compliance Risk, Reputation Risk and Environmental Risk.

42.2 Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has delegated its authority to Board Integrated Risk Management Committee (BIRMC), which is a sub-committee of the Board, oversees the risk management function in line with the Board approved policies and strategies. Integrated Risk Management committee shall develop the policy and operations for Company-wide risk management. The Committee comprises of Executive and Non-Executive Directors. Meeting of BIRMC are held regularly, and the Board of Directors are duly updated of its activities.

Risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Company, through its training and management standards and procedures, continuously updates and maintains a disciplined and constructive control environment, in which all employees are assigned and made to understand their respective roles and responsibilities.

Risk appetite of the Company is defined in both qualitative and quantitative terms. These risk appetite parameters are dynamic and subject to changes in line with the changing business strategies of the Company and changing market conditions. Risk appetite of the Company is defined through the Risk tolerance limits approved by the Board of Directors.

The BIRMC was set up to fulfil the requirement set out in the Finance Companies Direction No. 3 of 2008 on Corporate Governance for Finance Companies issued by Central Bank of Sri Lanka (CBSL) under Finance Business Act, No. 42 of 2011.

The said Committee consists of such number of members, as the Board may determine from time to time. The Committee currently consists of membership of 4 Directors, Managing Director and key management personnel supervising broad risk categories, i.e. credit, market, liquidity, operational and strategic risks.

In addition to the BIRM Committee, Risk Management function is managed by Risk Management Department (RMD). RMD is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. The Department works closely with the Risk Committee to ensure that procedures are compliant with the overall framework. RMD is also responsible for monitoring compliance with risk principles, policies and limits across the Company. This unit also ensures the complete capture of the risks in risk measurement and reporting systems. Exceptions are reported on, where necessary, to the Risk Committee, and the relevant actions are taken to address exceptions and any areas of weakness.

42. RISK MANAGEMENT (Contd…)

42.3 Risk measurement & Reporting System and Risk Mitigation

Prudent management of risk exposures relevant to the Company’s business operations would be ensured through a mechanism of “Three Lines of Defence”. These levels consist of management of risk by the relevant risk-assuming function, independent risk management & compliance functions and internal & external audit functions.

The positioning map of each risk component is placed within the risk grid. Tolerance levels are set by using sustainable measurements and these are discussed at risk management meetings. The risk console indicates the severity of each component of risk. Tabulated below is the Risk Console that is used in identification of Key Risks and Risk Measures taken by the company together with mitigates suggested.

Credit Risk	**1.Default Risk** Potential loss due to borrower/ counterparty unable or unwilling to meet its obligations **2. Concentration Risk** Credit Exposure being concentrated to few sectors/ groups (insufficient diversification)	· Probability of Default · Loss Given Default · Sector / Asset / Client / Branch Concentrations of Lending Portfolio · Concentrations in Repossessed assets · Macro Credit Portfolio risk measures such as a) Provision Coverage b) Net NPL as a % of Equity Funds	· Board approved credit policies/ procedures/ framework and annual review · Delegated authority levels/ segregation of duties · Setting Prudential limits on maximum exposure - Overall NPL Ratio setting based on risk appetite - Credit Limit Exposures (for Asset Type and Sector) that takes account of NPL / Infection ratios and movement in NPL ratios - Concentration limits for clients/ groups, asset types · Monitoring of exposures against the limits · Trend analysis reported to BIRMC Strict compliance with CBSL Guidelines
Interest rate risk	Adverse effect on Net Interest Income	· Net Interest Yield and Movement in Net Interest Yield · Lending to Borrowing Ratio · Tracking of Movements in Money Market rates · Marginal Cost of funds / Risk based Pricing · Gaps in asset Liability Re-Pricing · Cumulative Gaps as a % of Cumulative Liabilities	· Setting of Marginal Pricing with Risk Premiums for Different classes of Lending assets · Setting of Lending to Borrowing ratios
Liquidity Risk	Inability to meet obligations as they fall due	· Gaps in dynamic liquidity flows · Stocks of high quality liquid assets	· Gaps limits for structural liquidity, · Liquidity contingency planning and Limits of minimum stocks of high quality liquid assets · Volatile Liability Dependency measures · Balance sheet ratios

42. RISK MANAGEMENT (Contd…)

42.4 Credit Risk

Credit risk is the risk of financial loss to the Company, if a borrower or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's credit facilities given to customers and investments in debt securities. The risk is primarily that of the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs. The loss may be complete or partial and can arise in a number of circumstances.

Credit risk is closely tied to the potential return, the most notable being that the yields on portfolios correlate strongly to their perceived credit risk. The strategy of Company is not to eliminate credit risk, but to maintain the same within pre-determined acceptance levels. The Company manages and controls credit risk by setting limits on the level of risk it is willing to accept for individual counterparties and industry concentrations, and by monitoring exposures in relation to such limits.

Management of Credit Risk

In credit risk management, the rigorous credit screening process adopted has been a core competency of the Company. The multiple layers of approving lines ensure that credit risk is mitigated in all aspects.

At the initial level, the credit facilities are preliminary screened at the branch level and a credit evaluation is done. Then based on the exposure the facility is escalated upwards for approval along with a credit risk assessment. In determining the borrower's credit risk the industry in which he performs, succession, integrity, past payment records inter alia are considered. In assessing the facility the equity contribution, security cover and guarantors are taken in to consideration.

Post approval pre-disbursement stage is covered by the Credit Administration department under which security documentation and disbursement is done. Post disbursement monitoring is efficiently carried out by both the branch network and the recoveries department based on the repayment pattern.

Early warnings signals captured through trigger lists done by credit risk management is also shared with respective departments to aid the post disbursement monitoring. Further timely reviews of facilities also ensure that any early warning signs are captured and required corrective steps are taken to arrest any unexpected default.

42.4.1 Impairment Assessment (Policy applicable from 1 January 2018)

The methodology of the impairment assessment has explained in Note 4.1.9 under Accounting policies.The references below should be read in conjunction with those Accounting policies.

42.4.1. (a) Definition of default and cure

The Company considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Company considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Company also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Company carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

* Internal assessment of the borrower indicating default or near-default
* The borrower requesting emergency funding from the Company
* The borrower having past due liabilities to public creditors or employees
* The borrower is deceased
* A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral

* A material decrease in the borrower's turnover or the loss of a major customer
* A covenant breach not waived by the Company
* The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection
* Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties

It is the Company's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

42.4.1(b) Significant increase in credit risk

The Company continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Company assesses whether there has been a significant increase in credit risk since initial recognition. The Company considers an exposure to have significantly increased in credit risk when the SLFRS 9 lifetime PD has doubled since initial recognition and has increased by more than 20 bps a year.

42. RISK MANAGEMENT (Contd…)

42.4.1 Assessment of Expected Credit Losses

42.4.1 (c) Analysis of the total allowance for expected credit losses is as follows.

As at 31st December	2018			
	Stage 1 Rs.000	Stage 2 Rs.000	Stage 3 Rs.000	Total Rs.000
Cash & cash equivalents	4	-	-	4
Factoring receivables	21,898	8,819	585,192	615,909
Gold loan receivables	5,177	4,027	1,296	10,500
Loan receivables	7,479	7,817	230,610	245,906
Lease receivables	39,697	89,466	485,345	614,508
Hire purchase receivables	16	17	33,092	33,125
Repossessed stock	-	-	177,654	177,654
Total allowance for expected credit losses	74,271	110,146	1,513,189	1,697,606

The methodology used in the determination of expected credit losses is explained in Note 4.1.9 to Financial Statements.

42.4.1(d) Movement of the total allowance for expected credit losses during the period

	2018 Rs.000
Balance as at 01st January 2018	877,844
Net charge to profit or loss (Note 10.1)	829,751
Write-off during the year	(175)
Interest income accrued on impaired loans & receivables (Note 7)	(9,763)
Other movements	(51)
Balance as at 31st December 2018	1,697,606

42.4.1(e) Sensitivity Analysis : Impact of staging of loans on collective allowance for expected credit losses

The following table illustrates the impact of staging of loans by comparing the allowance, if all performing financial assets were in stage 1 or if all such assets were in stage 2 to the actual expected credit loss recorded on these assets.

	Stage 1 and 2 Actual ECL	ECL - If all performing loans in Stage 1	Impact of staging
	Rs.000	Rs.000	Rs.000
Total allowance for expected credit losses	184,417	89,714	(94,703)

	Stage 1 and 2 Actual ECL	ECL - If all performing loans in Stage 2	Impact of staging
	Rs.000	Rs.000	Rs.000
Total allowance for expected credit losses	184,417	373,801	189,384

The management believes that a movement of the entire stage 1 loan portfolio to stage 2 is highly unlikely.

42.4.1(f) Loans past due but not impaired

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans that are contractually past due but not classified as impaired because they are less than 90 days past due.Loans past due 30 days or less are not presented in this analysis as they are not administratively considered past due.

As at 31st December	2018		
	31- 60 Days	61- 90 Days	Total
	Rs 000	Rs 000	Rs 000
Factoring receivables	288	-	288
Gold loan receivables	362,841	5,685	368,526
Loan receivables	186,261	191,789	378,050
Lease receivables	3,908,768	2,798,689	6,707,457
Hire purchase receivables	6,632	4,705	11,337
	4,464,790	3,000,868	7,465,658

42.4.1(g) Overview of rescheduled / restructured loans and advances (except individually impaired loans and advances)

As at 31st December	2018						
	Gross Carrying Value			Allowance for ECL			Net Carrying Value
	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total	
Loan receivables	6,883	79,812	86,695	62	13,167	13,229	73,466
Lease receivables	256,360	428,519	684,879	3,234	87,002	90,236	594,643
	263,243	508,331	771,574	3,296	100,169	103,465	668,109

42. RISK MANAGEMENT (Contd…)

42.4.2 Credit Quality by Class of Financial Assets

		2018					2017				
		NEITHER PAST DUE NOR IMPAIRED	PAST DUE NOT IMPAIRED	INDIVIDUALLY IMPAIRED	TOTAL	PERCENTAGE	NEITHER PAST DUE NOR IMPAIRED	PAST DUE NOT IMPAIRED	INDIVIDUALLY IMPAIRED	TOTAL	PERCENTAGE
		Rs'000	Rs'000	Rs'000	Rs. '000		Rs'000	Rs'000	Rs'000	Rs. '000	
Assets	**Note**										
Cash and bank balances	18	191,556	-	-	191,556	0.52%	297,858	-	-	297,858	1.00%
Placements with banks	19	-	-	-	-	0.00%	65,699	-	-	65,699	0.22%
Securities purchased under repurchase agreements	20	1,768,461	-	-	1,768,461	4.80%	1,200,981	-	-	1,200,981	4.05%
Financial investments held to maturity	28	-	-	-	-	0.00%	4,303	-	-	4,303	0.01%
Debt instruments at amortised cost	28	4,319			4,319	0.01%	-	-	-	-	0.00%
Factoring receivables	21	163,678	522	1,784,019	1,948,219	5.28%	1,759,209	70,142	228,394	2,057,745	6.93%
Gold loan receivables	22	2,862,617	696,549	-	3,559,166	9.65%	1,837,753	745,307	-	2,583,060	8.70%
Loan receivables	23	274,246	1,987,632	465,603	2,727,481	7.40%	1,453,139	1,204,888	101,135.00	2,759,162	9.30%
Lease receivables	24	10,895,790	15,320,650	-	26,216,440	71.11%	10,011,182	10,133,842	-	20,145,024	67.89%
Hire purchase receivables	25	17,970	63,680	-	81,650	0.22%	122,296	169,077	-	291,373	0.98%
Other assets	26	370,267	-	-	370,267	1.00%	268,737	-	-	268,737	0.91%
Financial instruments- available for sale	25	-	-	-	-	0.00%	56	-	-	56	0.00%
Equity instruments at fair value through OCI		56	-	-	56	0.00%	-	-	-	-	0.00%
Total		16,548,960	18,069,033	2,249,622	36,867,615	100.00%	17,021,213	12,323,256	329,529	29,673,998	100.00%

42.4.2.1 Aging analysis of past due (i.e. facilities in arrears of 1 day and above) but not impaired loans by class of financial assets

	Past due not impaired					Past due not impaired				
	Less than 30 days 2018 Rs'000	31 to 60 days 2018 Rs'000	61 to 90 days 2018 Rs'000	More than 91 days 2018 Rs'000	Total 2018 Rs'000	Less than 30 days 2017 Rs'000	31 to 60 days 2017 Rs'000	61 to 90 days 2017 Rs'000	More than 91 days 2017 Rs'000	Total 2017 Rs'000
Factoring receivables	234	288	-	-	522	15,028	-	4,798	50,316	70,142
Lease receivables	5,794,384	3,908,768	2,798,689	2,818,809	15,320,650	5,121,697	3,079,831	1,345,034	587,280	10,133,842
Hire purchase receivable	8,377	6,632	4,705	43,966	63,680	57,398	38,120	27,758	45,801	169,077
Loan receivables	942,014	186,261	191,789	667,568	1,987,632	619,538	265,437	159,262	160,651	1,204,888
Gold loan receivables	315,868	362,841	5,685	12,155	696,549	361,250	354,464	17,069	12,524	745,307
Total	7,060,877	4,464,790	3,000,868	3,542,498	18,069,033	6,174,911	3,737,852	1,553,921	856,572	12,323,256

42. RISK MANAGEMENT (Contd…)

42.4.3 Maximum Exposure to Credit Risk

As at 31 December	2018		2017	
	MAXIMUM EXPOSURE TO CREDIT RISK	**NET EXPOSURE**	**MAXIMUM EXPOSURE TO CREDIT RISK**	**NET EXPOSURE**
	Rs'000	**Rs. '000**	**Rs'000**	**Rs. '000**
Financial Assets				
Cash and bank balances	191,556	31,762	297,858	25,092
Securities purchased under repurchase agreements	1,768,461	-	1,200,981	-
Placements with banks	-	-	65,699	65,699
Factoring receivables	1,332,310	1,114,160	1,899,702	1,647,213
Gold loan receivables	3,548,666	-	2,563,352	-
Loan receivables	2,481,575	1,506,098	2,724,776	1,734,861
Lease receivables	25,601,932	-	19,873,470	-
Hire purchase receivables	48,525	-	252,000	-
Other assets	370,267	222,563	268,737	174,171
Financial instruments available for sale	-	-	56	56
Equity instruments at fair value through OCI	56	56	-	-
Financial investments held to maturity	-	-	4,303	-
Debt instruments at amortised cost	4,319	-	-	-
Total Financial Assets	**35,347,667**	**2,874,639**	**29,150,934**	**3,647,092**

42.4.4 Offsetting financial assets and liabilities

The amount of the financial collateral received or pledged subject to netting arrangements but not qualified for offsetting are disclosed.

	2018			2017		
	Gross amount	Amount subject to netting but do not qualify for offsettling	Net amount	Gross amount	Amount subject to netting but do not qualify for offsettling	Net amount
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Financial Assets						
Loan receivables	1,273,422	495,671	777,751	1,491,473	775,254	716,219

42. RISK MANAGEMENT (Contd…)

42.4.5 Analysis of Risk Concentration

The following table shows the risk concentration by sector for the Financial Assets components of the Statement of Financial Position.

As at 31 December 2018 **Rs' 000**

	Manufacturing	Tourism	Agriculture	Trade	Construction	Transport	Services	Government	Financial Institutions	Consumers	Others	Total
Cash and bank balances	-	-	-	-	-	-	-	-	191,556	-	-	191,556
Securities purchased under repurchase agreements	-	-	-	-	-	-	-	1,768,461	-	-	-	1,768,461
Factoring receivables	922,711	-	26,910	330,680	6,414	11,921	33,674	-	-	-	-	1,332,310
Gold loan receivables	-	-	-	-	-	-	-	-	-	3,548,666	-	3,548,666
Loan receivables	375,128	67,999	57,468	609,512	448,814	43,778	73,589	-	102,501	485,415	217,371	2,481,575
Lease receivables	1,721,203	1,236,403	2,172,913	4,910,634	1,713,641	1,923,375	9,277,510	3,290	-	1,690,413	952,550	25,601,932
Hire purchase receivables	247	1,230	2,586	11,076	2,486	958	27,577	-	-	2,365	-	48,525
Other assets	-	-	-	-	-	-	-	-	-	-	370,267	370,267
Equity instruments at fair value through OCI	-	-	-	-	-	-	-	-	56		-	56
Debt instruments at amortised cost	-	-	-	-	-	-	-	4,319	-		-	4,319
	3,019,289	1,305,632	2,259,877	5,861,902	2,171,355	1,980,032	9,412,350	1,776,070	294,113	5,726,859	1,540,188	35,347,667

As at 31 December 2017 **Rs' 000**

	Manufacturing	Tourism	Agriculture	Trade	Construction	Transport	Services	Government	Financial Institutions	Consumers	Others	Total
Cash and bank balances	-	-	-	-	-	-	-	-	297,858	-	-	297,858
Placements with banks	-	-	-	-	-	-	-	-	65,699	-	-	65,699
Securities purchased under repurchase agreements	-	-	-	-	-	-	-	1,200,981	-	-	-	1,200,981
Factoring receivables	1,198,118	6,709	82,817	371,994	192,809	8,144	39,111	-	-	-	-	1,899,702
Gold loan receivables	-	-	-	-	-	-	-	-	-	2,563,352	-	2,563,352
Loan receivables	471,805	54,688	81,645	417,915	153,746	89,075	387,857	-	360,200	-	707,845	2,724,776
Lease receivables	422,300	518,185	1,461,724	4,567,313	765,855	-	5,760,458	-	-	-	6,377,635	19,873,470
Hire purchase receivables	2,161	7,370	12,550	47,474	510	-	-	-	-	-	181,935	252,000
Other assets	-	-	-	-	-	-	-	-	-	-	268,737	268,737
Financial instruments available for sale	-	-	-	-	-	-	-	-	56	-	-	56
Financial investments held to maturity	-	-	-	-	-	-	-	4,303	-	-	-	4,303
	2,094,384	586,952	1,638,736	5,404,696	1,112,920	97,219	6,187,426	1,205,284	723,813	2,563,352	7,536,152	29,150,934

42. RISK MANAGEMENT (Contd…)

42.5 Interest Rate Risk

Interest Rate Risk is the potential negative impact on the Net Interest Income and it refers to the vulnerability of an institution's financial condition due to the movement in interest rates. Changes in interest rate affect earnings, value of assets, liability, off-balance sheet items and cash flow. Hence, the objective of interest rate risk management is to maintain earnings, improve the capability, ability to absorb potential loss and to ensure the adequacy of the compensation received for the risk taken.

The fluctuation of interest rates is an external factor which is beyond the control of the Company. Though the Company is affected by movements in interest rates to the extent that its asset / liability mismatches gives rise to interest paying liabilities being re-priced faster than its interest earning assets. This in turn affects Net Interest income and Net Interest Yields.

Management of Interest Rate Risk

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing brands. ALCO is the monitoring body for compliance with these limits and assisted by Finance Department. Monitoring includes changes in the Company's interest rate exposures, which include the impact of the Company's outstanding or forecast debt obligations. Management of interest rate risk aims at capturing the risks arising from the maturity and re-pricing.

Asset liability management encompasses the complete set of techniques used to manage interest rate risk within the broad risk management framework. Interest rate risk analysis is almost always based on simulating movements in one or more yield curve. The strategy of the Company is not to eliminate risk, but to maintain the same within pre-determined acceptance levels.

In setting the Tolerance levels for Interest rate risk, the following metrics are used.

- Minimum Net Interest Spread: In order to maintain the required Net Interest Spread at the budgeting level the required ROA, ROE are inputs. Further the NPL ratios for different categories of assets are used as a proxy for setting the risk premium.

- Setting the proportion of Variable Rated Borrowing's within the Overall Borrowing Mix. This would be set by using the extent to which Budgeted Net Interest Income (NII) is affected by the extensive use of Variable Rated Borrowings.

42.5.1 Interest Rate Sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's Income Statement & Equity.

			Rs. Million
Currency of Borrowings/ Advance	**Increase (Decrease) in basis points**	**Sensitivity of Profit or Loss**	**Sensitivity of Equity**
	2018	**2018**	**2018**
Long Term Loans linked to AWPLR	1/ (-1)	(75.26)/75.26	2.13%
	0.5 / (0.5)	(37.63)/37.63	1.06%
	0.25 / (0.25)	(18.82)/18.82	0.53%
	2017	**2017**	**2017**
Long Term Loans linked to AWPLR	1/ (-1)	(70.53)/70.53	2.90%
	0.5 / (0.5)	(35.27)/35.27	1.45%
	0.25 / (0.25)	(17.63)/17.63	0.73%

The base ratio considers in the Interest Rate Sensitivity Analysis is the AWPLR. Since 46.66% (2017-43.77%) of total borrowings are linked to AWPLR, the above sensitivity ratio indicates the impact on Income Statement and to Equity, due to changes in the Average Weighted Prime Lending Rate.

42. RISK MANAGEMENT (Contd…)

42.5.2 Interest Rate Risk (Contd..)

Interest Rate Risk Exposure On Non Trading Financial Assets & Liabilities

The table below analyses the Company's interest rate risk exposure on financial assets & liabilities. The Company's assets & liabilities are included at carrying amount and categorized by the earlier of contractual reprising or maturity dates.

As at 31 December 2018	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Non Interest Bearing	Total
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Financial Assets							
Cash and bank balances	191,556	-	-	-	-	-	191,556
Securities purchased under repurchase agreements	1,758,728	9,733	-	-	-	-	1,768,461
Factoring receivables	396,140	936,170	-	-	-	-	1,332,310
Lease receivables	2,817,065	6,011,249	11,686,715	4,993,187	93,716	-	25,601,932
Hire purchase receivables	34,974	10,967	1,314	1,270	-	-	48,525
Gold loan receivables	1,973,736	1,574,930	-	-	-	-	3,548,666
Loan receivables	808,339	922,092	599,013	145,564	6,567	-	2,481,575
Other assets	-	-	-	-	-	370,267	370,267
Equity instruments at FVOCI	-	-	-	-	-	56	56
Debt instruments at amortised cost	-	-	4,319	-	-	-	4,319
Total Financial Assets	7,980,538	9,465,141	12,291,361	5,140,021	100,283	370,323	35,347,667
Financial Liabilities							
Bank overdraft	321,821	-	-	-	-	-	321,821
Due to other customers	3,121,797	4,126,418	1,393,040	1,030,738	15	-	9,672,008
Debt instruments issued and other borrowed funds	12,306,357	2,060,420	4,946,580	2,078,010	-	-	21,391,367
Other payables	-	-	-	-	-	398,769	398,769
Total Financial Liabilities	15,749,975	6,186,838	6,339,620	3,108,748	15	398,769	31,783,965
Interest Sensitivity Gap	(7,769,437)	3,278,303	5,951,741	2,031,273	100,268	(28,446)	3,563,701

As at 31 December 2017	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Non Interest Bearing	Total
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Financial Assets							
Cash and bank balances	297,858	-	-	-	-	-	297,858
Placements with banks	65,699	-	-	-	-	-	65,699
Securities purchased under repurchase agreements	608,872	592,109	-	-	-	-	1,200,981
Factoring receivables	485,214	1,379,466	35,022	-	-	-	1,899,702
Lease receivables	1,670,185	4,601,836	9,403,521	4,147,767	50,161	-	19,873,470
Hire purchase receivables	98,153	100,017	51,521	2,309	-	-	252,000
Gold loan receivables	2,074,498	488,671	183	-	-	-	2,563,352
Loan receivables	549,513	1,183,262	852,090	133,323	6,588	-	2,724,776
Other Assets	-	-	-	-	-	268,737	268,737
Financial instruments available for sale	-	-	-	-	-	56	56
Financial investments held to maturity	-	-	-	4,303	-	-	4,303
Total Financial Assets	5,849,992	8,345,361	10,342,337	4,287,702	56,749	268,793	29,150,934
Financial Liabilities							
Bank overdraft	456,018	-	-	-	-	-	456,018
Due to other customers	4,239,650	3,293,060	834,352	966,546	14	-	9,333,622
Debt instruments issued and other borrowed funds	9,048,306	1,309,152	3,875,310	2,078,010	-	-	16,310,778
Other payables	-	-	-	-	-	555,630	555,630
Total Financial Liabilities	13,743,974	4,602,212	4,709,662	3,044,556	14	555,630	26,656,048
Interest Sensitivity Gap	(7,893,982)	3,743,149	5,632,675	1,243,146	56,735	(286,837)	2,494,886

42. RISK MANAGEMENT (Contd…)

42.6 Liquidity Risk

Liquidity is generally defined as the ability of a financial institution to meet its debt obligations without incurring unacceptably large losses. Liquidity risk refers to the non-availability of sufficient cash balances to meet new lending targets as well as provide a flow of net liquid assets to meet contractual borrowings and other commitments.

An institution might lose liquidity if its credit rating falls, it experiences sudden unexpected cash outflows, or some other event causing counterparties to avoid trading with or lending to the institution. A firm is also exposed to liquidity risk if markets on which it depends are subject to loss of liquidity.

Management of Liquidity Risk

The Company's risk for managing liquidity risk and oversight of the implementation is administered by ALCO. Finance Department manages the Company's liquidity position on a day to day basis.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required. A key element of these systems is monitoring and assessing the firm's current and future fund requirement including debt obligations and planning for any unexpected funding needs, regardless of whether they arise from firm-specific factors, or from systemic (economy-wide) factors.

The key elements of the Company's liquidity strategy are as follows.

Company assesses available lines of credit, GAP analysis and volatile liability dependency ratio in order to assess the liquidity risk. In setting the Tolerance levels for Liquidity risk, the following metrics are used.

- Available Lines of Credit (reckoned in months of new lending) to be set at a level equal to future lending targets. Further the maturities of the available lines of credit are matched with the average lending maturities.

- Cumulative Gaps as a % of Cumulative maturing Liabilities to be set in accordance with industry norms as well as considering re-pricing risks associated with maturing assets and liabilities.

- Volatile Liability Dependency ratio to be set at a level that does not affect short term liquidity and re-pricing risks (Interest bearing liabilities maturity within 01 year as a percentage of total lending assets).

The Company maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Company also has committed lines of credit that it can access to meet liquidity needs. In addition, the Company maintains the liquidity ratio prescribed by Central Bank of Sri Lanka.

Regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more sensitive market conditions.

42. RISK MANAGEMENT (Contd…)

42.6 Liquidity Risk (Contd..)

42.6.1 Statutory Liquid Asset Ratio

Statutory Liquid Asset Calculation is performed based on the following calculations as prescribed in section 2, 3 & 4 of the Finance Companies (Liquid Assets) Direction No.04 of 2013.

The Company's liquid asset ratio is 7.5% of average of month end deposit liabilities and borrowings of the twelve months of the preceding financial year (as per section 4 of the said direction). Liquid assets are maintained with Sri Lanka Government securities.

42.6.2 Contractual Maturities of Undiscounted Cash Flows of Financial Assets & Financial Liabilities

The table below summarizes the maturity profile of the undiscounted cash flows of the Companies financial assets and liabilities as at 31 December 2018.
Repayments of short term loans which are subject to notice are treated as if notice were to be given immediately. However the company expects that banks will not request repayment on the earliest date that the company is required to pay and the table does not reflect the expected cash flows indicated by the company.

As at 31 December 2018	Up to 03 Months Rs'000	03-12 Months Rs'000	01-03 Years Rs'000	03-05 Years Rs'000	Over 05 Years Rs'000	Total Rs'000
Financial Assets						
Cash and bank balances	191,559	-	-	-	-	191,559
Securities purchased under repurchase agreements	1,771,223	10,647	-	-	-	1,781,870
Factoring receivables	1,182,533	969,090	-	-	-	2,151,623
Lease receivables	4,044,140	9,019,375	16,055,474	5,893,593	103,442	35,116,024
Hire purchase receivables	70,566	18,076	3,284	2,085	-	94,011
Gold loan receivables	2,010,493	1,794,823	-	-	-	3,805,316
Loan receivables	628,211	1,315,122	659,430	160,269	7,230	2,770,262
Other assets	205,688	46,070	100,604	66,351	5,219	423,932
Equity instruments at fair value through OCI	-	-	-	-	56	56
Debt instruments at amortised cost	-	-	-	4,300	-	4,300
Total Financial Assets	10,104,413	13,173,203	16,818,792	6,126,598	115,947	46,338,953
Financial Liabilities						
Bank overdraft	321,821	-	-	-	-	321,821
Due to other customers	3,319,343	4,358,248	1,630,457	688,797	11	9,996,856
Debt instruments issued and other borrowed funds	5,894,445	5,344,473	9,334,898	2,070,062	-	22,643,878
Other payables	398,769	-	-	-	-	398,769
Total Financial Liabilities	9,934,378	9,702,721	10,965,355	2,758,859	11	33,361,324
Net Financial Asset/Liabilities	170,035	3,470,482	5,853,437	3,367,739	115,936	12,977,629

As at 31 December 2017	Up to 03 Months Rs'000	03-12 Months Rs'000	01-03 Years Rs'000	03-05 Years Rs'000	Over 05 Years Rs'000	Total Rs'000
Financial Assets						
Cash and bank balances	297,858	-	-	-	-	297,858
Securities purchased under repurchase agreements	618,334	607,200	-	-	-	1,225,534
Placements with banks	66,013	-	-	-	-	66,013
Factoring receivables	747,250	1,384,508	35,037	-	-	2,166,795
Lease receivables	2,652,285	6,831,924	12,699,281	4,823,611	54,719	27,061,820
Hire purchase receivables	135,841	127,002	62,435	2,963	-	328,241
Gold loan receivables	2,122,964	547,661	186	-	-	2,670,811
Loan receivables	656,633	1,443,885	1,044,101	156,621	7,521	3,308,761
Other assets	292,331	59,941	83,936	55,665	2,966	494,839
Financial instruments available for sale	-	-	-	-	56	56
Financial investments held to maturity	-	-	-	4,300	-	4,300
Total Financial Assets	7,589,509	11,002,121	13,924,976	5,043,160	65,262	37,625,028
Financial Liabilities						
Bank overdraft	456,018	-	-	-	-	456,018
Due to other customers	4,528,703	3,754,435	1,231,419	1,219,719	14	10,734,290
Debt instruments issued and other borrowed funds	2,951,174	4,277,932	6,539,109	3,853,490	-	17,621,705
Other payables	555,630	-	-	-	-	555,630
Total Financial Liabilities	8,491,525	8,032,367	7,770,528	5,073,209	14	29,367,643
Net Financial Asset/Liabilities	(902,016)	2,969,754	6,154,448	(30,049)	65,248	8,257,385

43. MATURITY ANALYSIS

As at 31 December 2018	Up to 03 Months Rs'000	03-12 Months Rs'000	01-03 Years Rs'000	03-05 Years Rs'000	Over 05 Years Rs'000	Total Rs'000
Assets						
Cash and bank balances	191,556	-	-	-	-	191,556
Securities purchased under repurchase	1,758,728	9,733	-	-	-	1,768,461
Factoring receivables	396,140	936,170	-	-	-	1,332,310
Lease receivables	2,817,065	6,011,249	11,686,715	4,993,187	93,716	25,601,932
Hire purchase receivables	34,974	10,967	1,314	1,270	-	48,525
Gold loan receivables	1,973,736	1,574,930	-	-	-	3,548,666
Loan receivables	808,339	922,092	599,013	145,564	6,567	2,481,575
Other assets	264,250	61,881	89,367	63,358	10,700	489,556
Equity instruments at fair value through OCI	-	-	-	-	56	56
Debt instruments at amortised cost	-	-	4,319	-	-	4,319
Intangible assets	-	-	-	-	83,972	83,972
Property, plant & equipment	-	-	-	-	615,402	615,402
Total Assets	8,244,788	9,527,022	12,380,728	5,203,379	810,413	36,166,330
Liabilities						
Bank overdraft	321,821	-	-	-	-	321,821
Due to other customers	3,121,797	4,126,418	1,393,040	1,030,738	15	9,672,008
Debt instruments issued and other borrowed	5,472,998	6,311,011	7,731,258	1,876,100	-	21,391,367
Other payables	583,288	506	1,340	3,091	12,511	600,736
Deferred taxation liability	-	-	-	-	449,603	449,603
Income taxation payable	-	149,015	-	-	-	149,015
Retirement benefit obligations	-	-	-	-	40,789	40,789
Total Liabilities	9,499,904	10,586,950	9,125,638	2,909,929	502,918	32,625,339

As at 31 December 2017	Up to 03 Months Rs'000	03-12 Months Rs'000	01-03 Years Rs'000	03-05 Years Rs'000	Over 05 Years Rs'000	Total Rs'000
Assets						
Cash and bank balances	297,858	-	-	-	-	297,858
Securities purchased under repurchase agreements	608,872	592,109	-	-	-	1,200,981
	65,699	-	-	-	-	65,699
Factoring receivables	485,214	1,379,466	35,022	-	-	1,899,702
Lease receivables	1,670,185	4,601,836	9,403,521	4,147,767	50,161	19,873,470
Hire purchase receivables	98,153	100,017	51,521	2,309	-	252,000
Gold loan receivables	2,074,498	488,671	183	-	-	2,563,352
Loan receivables	549,513	1,183,262	852,090	133,323	6,588	2,724,776
Other assets	289,248	52,015	70,212	50,545	2,966	464,986
Financial instruments available for sale	-	-	-	-	56	56
Financial investments held to maturity	-	-	-	4,303	-	4,303
Intangible assets	-	-	-	-	8,257	8,257
Property, plant & equipment	-	-	-	-	455,140	455,140
Total Assets	6,139,240	8,397,376	10,412,549	4,338,247	523,168	29,810,580
Total Liabilities						
Bank overdraft	456,018	-	-	-	-	456,018
Due to other customers	4,239,650	3,293,060	834,352	966,546	14	9,333,622
Debt instruments issued and other borrowed funds	2,629,286	3,102,022	7,246,370	3,333,100	-	16,310,778
Other payables	758,171	693	722	2,896	12,963	775,445
Deferred taxation liability	-	-	-	-	331,469	331,469
Income taxation payable	-	91,800	-	-	-	91,800
Retirement benefit obligations	-	-	-	-	33,163	33,163
Total Liabilities	8,083,125	6,487,575	8,081,444	4,302,542	377,609	27,332,295

44. COMMITMENTS AND CONTINGENCIES

	2018					2017				
	Rs. '000					Rs. '000				
	On Demand	With in 01 year	1-5 years	More than 5 years	Total	On Demand	With in 01 year	1-5 years	More than 5 years	Total
Commitments										
Commitment for unutilised facilities-Direct credit facilities										
- Factoring	194,468	-	-	-	194,468	411,742	-	-	-	411,742
-Revolving Loans	4,290	-	-	-	4,290	21,238	-	-	-	21,238
Operating lease commitments-Company as lessee	-	71,106	180,506	93,380	344,992	-	75,769	152,546	97,593	325,908
Capital commitments(Note 44.1)	-	63,723	-	-	63,723	-	13,169	-	-	13,169
	198,758	134,829	180,506	93,380	607,473	432,980	88,938	152,546	97,593	772,057
Contingent Liabilities										
Guarantees	-	2,200	-	-	2,200	-	600	-	-	600
	-	2,200	-	-	2,200	-	600	-	-	600
Total commitments & contingencies	198,758	137,029	180,506	93,380	609,673	432,980	89,538	152,546	97,593	772,657

44.1 Capital commitments

Capital expenditure approved by the Board of Directors, for which provisions have not been made in the Financial Statements are detailed below.

	2018 Rs'000	2017 Rs'000
Approved and contracted for	63,723	13,169
Approved but not contracted for	-	-
	63,723	13,169

44.2 Litigation filed by the Company/ against the Company

Litigation is a common occurrence in the finance industry due to the nature of the business undertaken. The Company has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Company makes adjustments to account for any adverse effects which the claims may have on its financial standing. There were no pending litigation against the Company as at 31 December 2018 which would have a material impact on the Financial Statements.

45. EVENTS AFTER THE REPORTING PERIOD

No circumstances have arisen since the reporting date which would require adjustments to, or disclosure in the Financial Statements.

46. COMPARATIVE INFORMATION

The comparative information is reclassified wherever necessary to conform to the current year's presentation.

47. RELATED PARTY TRANSACTIONS

The Company carries out transactions in the ordinary course of business on an arm's length basis at commercial rates with the parties who are defined as Sri Lanka Accounting Standard No.24 Related Party Disclosure, details of which are reported below. The pricing applicable to such transactions is based on the assessment of risk and pricing model of the Company and is comparable with what is applied to transactions between the Company and its unrelated customers.

47.1 Parent and Ultimate Controlling Party

The Company is 100% owned by Sampath Bank PLC. Hence, Sampath Bank PLC is the parent company and the ultimate controlling party.

47. RELATED PARTY TRANSACTIONS (Contd..)

47.2 Transactions with Key Managerial Personnel

According to Sri Lanka Accounting Standard-LKAS 24 (Related Party Disclosures), Key Management Personnel (KMP) are those having authority and responsibility for planning, directing and controlling the activities of the entity. According to the above definition a person cannot be considered as a KMP unless such person has both the authority and responsibility to carry out all of the three activities mentioned in the above definition(i.e. planning, directing and controlling the activities of the entity).Such KMPs include the Board of Directors of the Company, Managing Director and the KMPs of the Sampath Bank PLC.

	2018 Rs'000	2017 Rs'000
Directors' fees & short term employee benefits	38,924	30,580
Total	38,924	30,580

In addition to the above, the Company has also paid for fuel and medical benefits to KMP who are employees of the Company in line with the approved benefit plans of the Company.

47.3 Transactions, Arrangements and Agreements involving KMP and their Close Family Members (CFMs)

47.3.1 Loans and advances granted

No loans or advances were given to Key Managerial Personnel and their close family members during the year.(2017- Nil).

47.3.2 Deposits and Borrowings from KMPs are detailed below.

	2018 Rs'000	2017 Rs'000
Term/Savings deposits	173,633	46,203
Interest on term/savings deposits	26,399	3,256

No borrowing through debt instruments were made or no investments were made by key management personnel during the year 2018. (2017-Nil)

47.4 Transactions, Arrangements and Agreements involving with Related Entities of KMPs

47.4.1 Operating Lease

	2018 Rs'000	2017 Rs'000
Rent Paid	34,600	35,265

Head Office premises of the Company is located at No. 46/12, Nawam Mawatha, Colombo 02, which is owned by Ceylon Ocean Lines Limited, the Ultimate Parent of which is Hayleys PLC.

47.4.2 Loans and Advances

	2018 Rs'000	2017 Rs'000
Interest income earned	-	1,152
Service charges earned	-	2,331

Revolving credit facilities have been granted to a related company of a KMP of the Company.

47.5 Transactions with Group Companies

47.5.1 Sampath Bank PLC - Parent Company

The Company has obtained short term loans, term loans, overdraft and bank guarantee facilities from the bank. All the transactions with the bank were on terms and conditions similar to facilities obtained through other banks.

Balance outstanding as at 31 December	2018 Rs'000	2017 Rs'000
Investment in government securities		
Opening Balance	8,892	8,100
Investment during the year	841	792
Closing Balance	9,733	8,892
Other receivables	-	497

47. RELATED PARTY TRANSACTIONS (Contd..)

47.5 Transactions with Group Companies (Contd..)

47.5.1 Sampath Bank PLC (Contd..)

	2018 Rs'000	2017 Rs'000
Term Loan (Only capital)		
Opening Balance	1,484,610	2,124,780
Granted during the year	3,000,000	-
Less : Repayment during the year	(996,310)	(640,170)
Closing Balance	3,488,300	1,484,610
Short Term Loan (Only capital)	1,750,000	-
Bank Overdraft	263,939	398,214
Total Accommodation obtained	5,502,239	1,882,824
Less : Favourable balances in current accounts with bank	26,470	19,517
Net Accommodation	5,475,769	1,863,307
Net Accommodation as a percentage of Capital Funds	154.64%	75.19%

Transaction during the year	**Rs'000**	**Rs'000**
Expenses		
Interest paid	422,685	230,307
Bank Guarantee fee paid	21	680
Staff training paid (for facilitating staff training)	-	-
Rent paid (for the branch located within Sampath Bank premises)	1,715	1,225
Fees paid for acting as Bankers to the debentures issued in year 2016.	-	205
Other expenses	78	-
Income		
Fee for locating ATM machines at Company's branch premises operations	526	324
Interest Income on short term government securities	22,573	1,973
Interest Income on savings deposits	650	-

The company has invested in short term government securities through Sampath Bank PLC.

Issue of shares/Dividend		
Proceeds for rights issue of shares	650,000	-
Scrip Dividend(Gross)-number of shares-1,569,242 (2016-1,652,420)	69,721	65,491

47.5.2 Sampath Information Technology Solutions Ltd

Sampath Information Technology Solutions Ltd is a subsidiary of Sampath Bank PLC which is the parent undertaking of Siyapatha Finance PLC.

The Company has obtained Hardware/ Software maintenance services from SITS and payments were made as per the maintenance agreement. Company has purchased Leasing/ Loan Management & Pawning software and same is disclosed below.

Balance outstanding as at 31 December	**2018 Rs'000**	**2017 Rs'000**
Other receivables	291	146
Transaction during the year		
Hardware/Software maintenance paid	4,167	3,908
Operating lease expenses(Computer hire charges)	93	105

47.5.3 The Company had the following receivable/payable balances with other Group companies

	2018 Rs'000	**2017 Rs'000**
Receivables		
SC Securities Pvt Ltd	124	62
Sampath Centre Ltd	437	219
Payables		
Sampath Centre Ltd	1,092	-

48. CAPITAL

The Company maintains an activity managed capital basis to cover risks inherent in the business and meet the capital adequacy requirements of Central Bank of Sri Lanka. The adequacy of the company's capital is monitored based on the measures, rules and ratios adopted by Central Bank of Sri Lanka.

Capital Management

The primary objective of Company's capital management policy is to ensure that the Company complies with externally imposed capital requirements and healthy capital ratios in order to support its business and to maximize shareholders' value.

Regulatory Capital

The Company manages its capital considering the regulatory capital requirements. The Central Bank of Sri Lanka(CBSL)sets and monitors capital requirements for licensed finance companies. Accordingly finance companies in Sri Lanka need to maintain a minimum total capital adequacy ratio of 10% and a minimum core capital adequacy ratio (Tier I) of 6%.The Company has always maintained the Capital Adequacy Ratio above the minimum regulatory requirements.